



2003 annual report

· striving for excellence ·

RESOLUTE ENERGY INC.

(rez' ə lōōt), *adj.*

1. firmly resolved or determined.

2. characterized by firmness and determination.

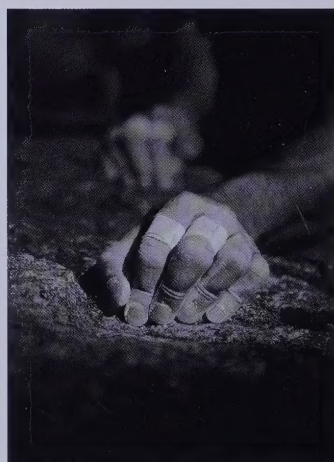
BEHIND THE COVER

Striving for Excellence. The mountain climber depicted on this year's annual report embodies many of the traits we believe are necessary to building a top-quartile exploration and development company. These include experience and judgement, strong synergy among team members and a technical understanding of the properties of rock and reservoirs. The journey to the top is challenging, but the risks are reduced by the caliber of the team, the choice of assets and the commitment to performance.

Resolute Energy Inc. is a growing exploration and production company that is successfully exploring for oil and natural gas. Based in Calgary, Alberta, the Company's shares (RSE) trade on the Toronto Stock Exchange.

ANNUAL GENERAL MEETING

The Annual and Special Meeting of Shareholders will be held at 3:00 pm on Thursday, May 6, 2004 at the Calgary Petroleum Club in the Devonian Room, 319 – 5 Avenue S.W., Calgary, Alberta.



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Resolute about

PERFORMANCE

Resolute has a long-term strategy for growth through exploration and development, complemented by strategic acquisitions that create new core operating regions or enhance our position in existing areas. We have assembled a top-tier team capable of building Resolute into an intermediate company. In 2003, our exploration program of 102 net wells contributed to average daily production of 5,606 boe/day and a 23% increase in proved reserves to a total of 15 million boe at year-end.

2003 PERFORMANCE VS. TARGET

Target: Build Two to Three New Core Areas

PERFORMANCE:

In 2003, Resolute initiated a major exploration thrust at Ante Creek in its Northwest Region that resulted in a new core area and began evaluating coalbed methane potential on its Central Alberta lands. The Company continues to cultivate early-stage exploration projects that have the potential to become future core growth areas.

Target: Expand Prospect Inventory

PERFORMANCE:

In 2003, Resolute's technical team defined drillable oil and natural gas prospects representing two years' worth of activity in the Company's Northwest, Central and Southern Alberta core regions.

Target: Reduce Operating Costs

PERFORMANCE:

In 2003, Resolute reduced operating costs slightly to an average of \$7.50 per boe. The Company plans to reduce average operating costs to \$7.00-\$7.25 per boe in 2004 through a number of initiatives including low-cost production additions and improved field operations.

Target: Add 100,000 Acres of Undeveloped Land

PERFORMANCE:

Resolute added 118,000 net acres of land, and at year-end 2003 had a total of 244,000 net undeveloped acres. New lands were added at each of the Company's Northwest, Central and Southern Alberta regions.

Target: Focus on Western Canada

PERFORMANCE:

In 2003, Resolute sold its Indonesian properties for net proceeds of \$23.2 million. The funds were re-directed to exploration and development activities in Western Canada.

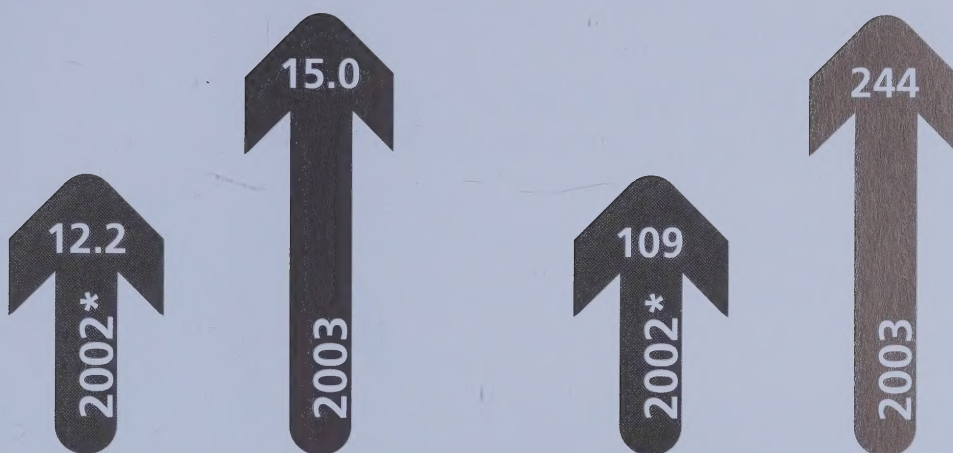
Target: Maintain Financial Strength and Flexibility

PERFORMANCE:

At year-end 2003, Resolute had \$19.8 million of long-term debt, less than 0.5 times Q4 annualized cash flow. Bank credit lines are expected to increase once the syndicated credit review is complete in April to reflect 2003 reserve additions.

HIGHLIGHTS

Years ended December 31 ⁽¹⁾	2003	2002 ^{(2) (3)}
(\$000s, except share amounts)		
Financial		
Gross oil and natural gas revenue	79,889	28,228
Cash flow from operations	42,969	10,497
Per share basic (\$)	0.72	0.18
Per share diluted (\$)	0.71	0.18
Net income (loss) from continuing operations	17,422	(17,675)
Per share basic (\$)	0.29	(0.30)
Per share diluted (\$)	0.29	(0.30)
Net income, including discontinued operations (loss)	11,509	(15,546)
Per share basic (\$)	0.19	(0.26)
Per share diluted (\$)	0.19	(0.26)
Capital expenditures (net)	62,992	19,879
Bank debt and working capital deficiency	19,818	25,834
Shares outstanding (000s)		
At period end	60,097	59,155
Weighted average during period, basic	59,504	58,707
Weighted average during period, diluted	60,870	59,347
Operating		
Production		
Natural gas (mmcf/day)	23.3	10.5
Oil and natural gas liquids (bbls/day)	1,719	872
Oil equivalent (boe/day) (6:1)	5,606	2,626
Average wellhead prices		
Natural gas (\$/mcf)	6.64	4.34
Oil and natural gas liquids (\$/bbl)	37.37	36.92
Oil equivalent (\$/boe) (6:1)	39.04	29.45
Wells drilled (gross/net)		
Natural gas	90/84.7	50/47.6
Oil	13/12.0	3.0/2.0
Dry	6.0/5.0	5.0/4.0
Total	109/101.7	58/53.6
Net success rate	95%	93%
Undeveloped land holdings		
Gross acres (000s)	337	292
Net acres (000s)	244	209
Average working interest (%)	72	72



Proved Reserves (mmboe)

*June 30, 2002

Undeveloped Land (000 net acres)

Net of Pending Expiries

*June 30, 2002

Years ended December 31 ⁽¹⁾	2003	2002 ^{(2) (3)}
Reserves		
Total proved		
Crude oil and NGLs (mbbls)	3,984	3,685
Natural gas (mmcf)	66,250	50,908
Oil equivalent (mboe) (6:1)	15,026	12,169
Proved plus probable ⁽⁴⁾		
Crude oil and NGLs (mbbls)	4,743	4,358
Natural gas (mmcf)	83,840	68,509
Oil equivalent (mboe) (6:1)	18,716	15,776
Reserve life index ⁽⁵⁾		
Total proved	7.0	6.7
Proved plus probable ⁽⁴⁾	8.7	8.7
Pre-tax net present value of reserves (\$000s) ⁽⁶⁾		
Proved	151,005	115,585
Proved plus probable ⁽⁴⁾	173,719	136,431

(1) The financial and operating summary represents results of continuing operations unless otherwise noted.

(2) The comparative 2002 figures include results of operations from June 14, 2002 when the Company acquired Equatorial Energy Inc. The Company did not have material operations prior to this date.

(3) Comparative amounts have been restated to conform to current year presentation.

(4) Established (proved plus one-half probable) reserves and values were used as a comparison to December 31, 2003 proved plus probable reserves to reflect the difference in the risk applied to these reserves as a result of the National Instrument 51-101 guidelines.

(5) Reserve life index is calculated based on annualized fourth-quarter average production.

(6) Based on Gilbert Laustsen Jung Associates Ltd. January 2004 escalated price forecast using a 10% discount factor.

Resolute about GROWTH



STRATEGIES FOR GROWTH

Acquisitions	Internal Prospect Generation
CORPORATE: We pay fair value for acquisitions that offer opportunities for growth through exploration and development.	EXPLORATION: Resolute has a 12-person exploration and development team and a three-person negotiating team. They are experienced in exploration management, prospect generation, exploitation and negotiation.
2003 We refrained from corporate acquisitions in 2003 due to exceptionally high asking prices. 2004 We will continue to evaluate corporate opportunities that would add value and exploration potential.	2003 We made light oil discoveries at Ante Creek and Beaverlodge and natural gas discoveries at Berry and Willesden Green. 2004 We will define the Ante Creek play and pursue exploration opportunities in each of our three core regions.
PROPERTIES: Property acquisitions help to consolidate our interests in core regions, providing control over how a play is developed and produced and can also provide an entry point into a new area with production, land and facilities. All property deals are evaluated with a view of creating value.	DEVELOPMENT DRILLING: Whenever Resolute's exploration drilling reveals commercial oil or natural gas, we launch development programs to define pool boundaries and grow our production volumes. More mature pools are subject to exploitation activities such as infill drilling to maximize resource recovery.
2003 We expanded our Berry core area with an acquisition that added 16,700 net acres of lands and production of 250 boe/day. 2004 We will be active at Crown land sales and continue to negotiate private arrangements with land owners. We will continue to evaluate property acquisitions that are complementary to our growth plan in existing areas or to gain a foothold in new areas.	2003 We conducted development drilling programs in our Berry and Winnifred areas in the Southern Region and will evaluate the coalbed methane potential in our Central Region. 2004 Resolute's development drilling will focus on Southern Region natural gas and the Ante Creek oil discovery.

Resolute employs a full-cycle business model with three components:

- > creating new exploration and development opportunities in hydrocarbon-prone areas within the Western Canada Sedimentary Basin;
- > property acquisitions in areas with demonstrable exploration and development opportunities; and
- > restructuring opportunities that target undercapitalized companies with quality assets.

STRATEGIES FOR PROFITABILITY

Maximizing Recycle	Financial Strength
COST CONTROL: Resolute invested early in experienced professionals, specialized in particular disciplines, including geologists, geophysicists, drilling and production personnel, joint-venture specialists and in-house marketers. This initially results in higher G&A costs, but leads to synergies among the disciplines and a core group committed to building a larger, profitable company.	CREDIT FACILITY: We grow production and revenues mainly by reinvesting cash flow. We use debt sparingly for development projects and asset or corporate transactions. To avoid dilution, we minimize issuance of new equity.
2003 We added several professionals to the team with experience in various regions and disciplines. G&A costs per boe are expected to decline over time as we build the production base. 2004 We are targeting field efficiencies and facilities upgrades which should further reduce unit operating costs. Our cash G&A costs on a boe basis should improve with the post-Indonesian simplified corporate structure. Administrative efficiencies should result in lower professional and consultant fees.	2003 At December 31, 2003 we had credit facilities totalling \$50 million with two major Canadian chartered banks. 2004 We expect a significant increase to our credit facility during our credit review in April, 2004 reflecting our proved reserve increases in 2003.
FD&A COSTS: Our Company focuses on full-cycle economics which includes operating netbacks and FD&A costs. We are applying the discipline of continually high-grading our prospects, whereby only the most commercial projects will be undertaken.	FINANCIAL FLEXIBILITY: We will continuously evaluate all of our potential financing sources including cash flow, property dispositions, debt and additional equity in conjunction with our goal of adding per share growth for our shareholders.
2003 We implemented systems to evaluate, plan and execute our capital projects which should result in lower FD&A costs in the future. 2004 Despite higher costs for equipment and services within the industry, we should be able to improve our capital cost efficiency with the added drilling, completions, facility expertise and advance planning.	2003 We substantially improved financial flexibility through the disposition of foreign assets for net proceeds of \$23.2 million. 2004 Our goal is to maintain a strong balance sheet to provide the financial flexibility to pursue additional opportunities and also reduce exposure to a significant commodity price decline.

PRESIDENT'S LETTER

Q What were the major achievements in 2003?

We strengthened our management team by adding seasoned professionals in a number of roles. We grew production and reserves, sold the Indonesia assets, reduced debt to acceptable levels, and executed a very strong exploration program. We ended the year with an exemplary core group of professionals and a drilling inventory of more than 100 locations.

STRIVING FOR EXCELLENCE

Our commitment to excellence led to Resolute's considerable progress in 2003. The year was marked by accomplishments in exploration and development, key additions that strengthened our executive and technical teams and the sale of our Indonesia assets. Growth in production volumes and high commodity prices contributed to excellent financial results and modest year-end debt. We also experienced broader and deeper market support that built over the course of the year, reflecting the value added by these activities.

From another perspective, 2003 was also a transition year for the Company, as we shifted from workout and recovery to growth orientation with respect to our initial acquisition.

Today, I believe that our people, assets and prospects will deliver exceptional growth over the next two years, moving the Company from junior to intermediate status among Canadian producers.

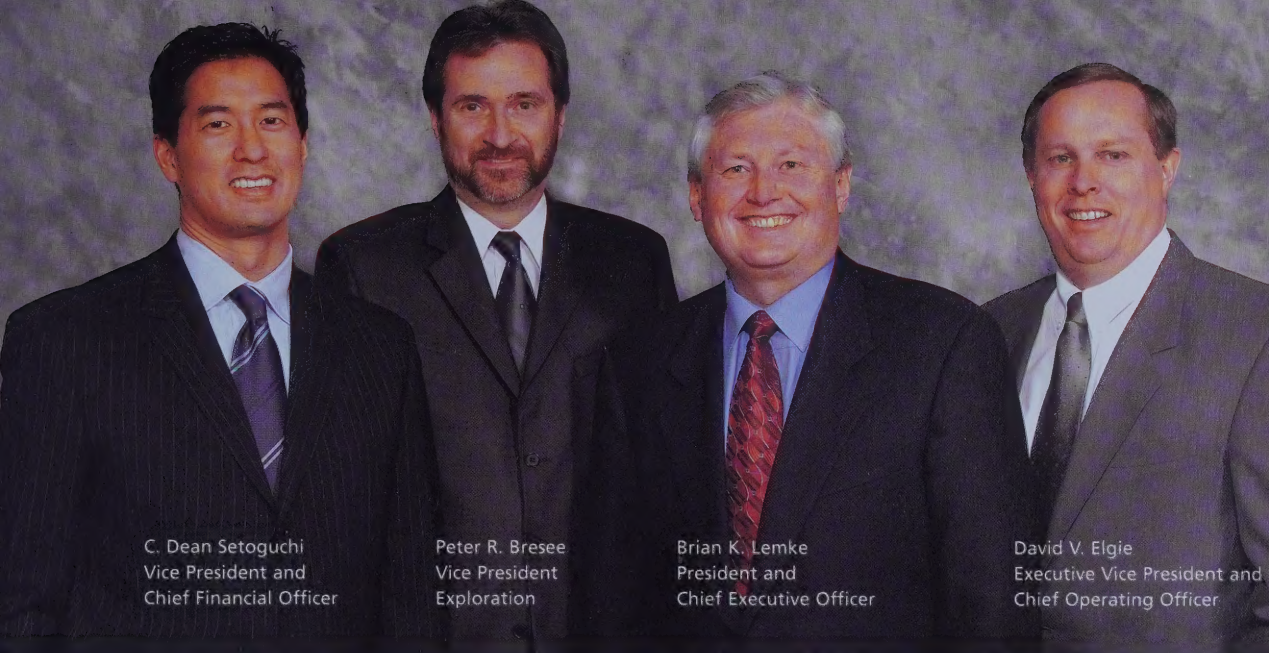
ADVANCING OUR PLAN AND CORE VALUES

I want to review the year in the context of our longer-term plans. When we created Resolute in late 2001, we saw three primary drivers of growth:

- > A foundation of exploration, development and operations expertise to identify and capitalize on new opportunities in Western Canada;
- > Selective property acquisitions to establish or build new focus areas; and
- > Reorganization or workouts of troubled companies, where we see opportunities to create value using our capital, financial and technical capabilities.

Our business plan parallels others and, in a market of countless competitors, it is fair to question what separates Resolute from our peers. I believe the answer lies in our core values and approach. These include:

- > Building our performance through top-quartile talent in all aspects of our business, with an uncompromising approach to recruiting, retaining and rewarding the best people;
- > Specialization and internal leadership in core disciplines, from exploration and geophysics to land, joint ventures and negotiations and from reserves, production engineering and operations to finance. We made great progress in expanding our skill set in 2003;



C. Dean Setoguchi
Vice President and
Chief Financial Officer

Peter R. Bresee
Vice President
Exploration

Brian K. Lemke
President and
Chief Executive Officer

David V. Elgie
Executive Vice President and
Chief Operating Officer

- > Combining our individual talents in a team approach to generate and execute projects, control risks and maximize results; and
- > Financial and commercial discipline in all aspects of our business.

These values are not simply words on paper. We have worked hard and built our organization by them over the past two years. They ensure our focus remains on full-cycle, sustainable growth and profitability rather than short-term measures or gains.

Under this plan, with \$56 million of initial capital, Resolute has grown from zero production and reserves to 5,900 barrels of oil equivalent boe/day and 18.7 million boe respectively at the end of 2003. And there is more to come.

EXPLORATION INITIATIVES

DRIVE 2003 GROWTH; INVENTORY FOR 2004-05

Exploration and development activities dominated Resolute's growth in 2003. We initiated and completed active drilling programs within our existing properties and secured land and prospects in new areas. Most important, we substantially enriched our inventory of opportunities and options, setting up plans and programs for 2004 and 2005.

Capital investment of \$63 million generated reserve additions that replaced over 240% of production. We achieved net increases to proved reserves (23%) as well as proved plus probable reserves (19%). All-in finding, development and acquisition costs, including changes in future capital, were \$12.90 per boe for proved reserves and \$11.57 per boe for proved plus probable reserves. Compared to the second half of 2002, which constituted Resolute's initial two quarters of operations, 2003 production increased by 17% for the full year and 22% for the more comparable second half.

What do your 2003 management additions contribute to Resolute's ability to deliver top tier performance?

Resolute is unique among junior E&P companies in two ways. We invested in top-drawer talent that reflects a much larger organization. We are specialists in discovering and understanding reservoirs, in drilling and completing wells into technical geological features and in arranging joint-venture partnerships to share the risk on more costly projects.

At the same time, we added 105,000 net acres of undeveloped land, bringing the year-end total to 244,000 net acres. We also increased our inventory of drilling locations, excluding shallow natural gas, to more than 100 from approximately 10 at the end of 2002. These totals include a new exploration area at Ante Creek in our Northwest Region, continuing programs for shallow and medium-depth natural gas in our Southern Region and evaluation of conventional natural gas and coalbed methane (CBM) in our Central Region, where we hold significant land, wells and facilities.

Supplementing these activities, Resolute completed an \$8 million property purchase in the Berry area early in 2003. Aside from this transaction, Resolute was less aggressive in the acquisition market last year. We continue to be cautious in light of cyclically-high commodity prices and intense competition for acquisition opportunities. Together with favourable equity markets, these conditions are prescriptive for record high transaction costs and lower returns for buyers. At Resolute, acquisitions must reflect fair value for existing assets and opportunities for growth through drilling or other exploration and development activities. Those characteristics were not evident in most of the opportunities we evaluated last year.

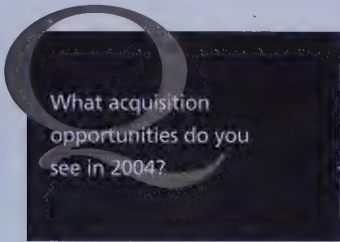
NEW ARRIVALS STRENGTHENED

MANAGEMENT AND TECHNICAL CAPABILITIES

To be a consistent top-quartile performer it is essential for us to center the Company on leadership and technical excellence in each of our core disciplines: land, exploration, drilling and completions, reservoir engineering, operations and finance. Additions to our senior management and technical teams in 2003 were as important as our operating and financial success.

What is the risk profile of Resolute's exploration and development program?

Lower-risk shallow gas in the Southern Region provides cash flow for higher-risk exploration in the Northwest Region. The Company is also pursuing longer-term opportunities such as coalbed methane potential in our Central Region.



What acquisition opportunities do you see in 2004?

We continue to selectively evaluate acquisition opportunities. However, the current cycle of high commodity prices and favourable equity markets indicate that transaction prices will be at or close to record highs. We will be disciplined and patient in our acquisition initiatives for the coming year.

Along with Dave Elgie as Chief Operating Officer and Dean Setoguchi as Chief Financial Officer, both of whom joined Resolute at mid-year, we added a number of new people to our team. As a group, these people contribute specialized skills in such areas as surface access and community relations, land and joint-venture negotiations, drilling and completions, production and reservoir engineering, operations and finance. Together, we have the full range of internal leadership and capabilities to manage significantly larger capital investment, properties and production than we presently hold.

INDONESIA SALE PROVIDED A FINANCIAL CATALYST, ELIMINATED MARKET UNCERTAINTY

A review of 2003 would not be complete without some remarks on the sale of the Indonesia operations, a critical milestone that we defined when the Equatorial acquisition closed in June 2002. Despite market concern about these assets, we avoided a "fire sale" approach, systematically managing and marketing them over the following twelve months. This persistent effort paid off in July 2003, when we realized \$23.2 million of net proceeds from the sale. Additionally, we realized distributions from Indonesia of approximately \$1.4 million during the one-year period prior to the sale.

Equally important, the transaction was negotiated without surviving representations, warranties or guarantees. This ensured that, aside from closing costs, there were no residual obligations associated with the deal. Investor confusion and uncertainty surrounding Indonesia were eliminated, providing immediate and continuing market support for the Company following the sale.

The Indonesia proceeds provided a substantial financial catalyst for growth, facilitating an expanded 2003 capital program and reducing debt, without the need to issue equity. Net debt at year-end was less than \$20 million, approximately one-half of annualized fourth-quarter cash flow, giving Resolute the flexibility and resources to execute and, as warranted, expand our 2004 activities.



Where's the sizzle in your
2004 exploration program?

We're encouraged by the potential of the Ante Creek play in our Northwest Region. We will be defining the size of the oil pool in 2004 and building facilities to process the associated gas. We also see early potential for coalbed methane development in our Central Region. Other key exploration programs in 2004 will take place in our Northwest, Central and Southern regions.

EXCELLENT FINANCIAL

PERFORMANCE FROM CONTINUING OPERATIONS

Resolute's financial performance for the year reflected growth in production and the benefits of higher oil and natural gas prices, which continue to show strength in the first months of 2004. Revenue of \$80 million, cash flow from continuing operations of \$43 million, or \$0.71 per common share (diluted) and net income from continuing operations of \$17.4 million, or \$0.29 per share (diluted) were highlights of this performance. After-tax return on equity was 16% and return on capital employed was 14%. These results considerably exceeded our expectations at the beginning of the year.

Partly offsetting the results from continuing operations, the sale of our Indonesia assets resulted in a net book loss of \$5.9 million, or \$0.10 per share.

Despite these positive results, we were less than satisfied with our progress on reducing operating and G&A expenses per unit-of-production. Except for lower royalty rates, cash costs per boe remained relatively flat compared to 2002. We have added operations, technical and financial management capabilities to address our costs on an area-by-area basis and expect to see improvement in 2004.

Finally, Resolute ended the year with \$99 million of income tax pools. We anticipate that these pools and our 2004 capital expenditures will fully shelter taxable income in 2004.

TEAM, OPPORTUNITIES AND BALANCE SHEET SET UP 2004 ACTIVITIES

In November, Resolute set an initial capital budget for 2004 of \$46 million along with contingent plans to increase investment levels, based on results. Early evaluation of our first-quarter drilling program indicates that the capital budget may be increased for facilities, drilling and development at Ante Creek and a larger evaluation program for coalbed methane and conventional natural gas on our Central Region acreage.

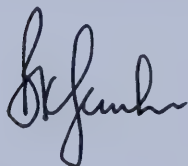
We are encouraged by our results to date at Ante Creek. After drilling two exploratory wells in August and consolidating our land position at a September land sale, we completed an 11-well program, including three re-completions, to evaluate and delineate this long-life oil prospect during the first quarter of 2004. The results to date show higher concentrations of associated natural gas than expected. As a result, we are proceeding with the installation of facilities to conserve the value of the natural gas. Production start-up is scheduled for the second quarter of 2004 and we will determine the next steps for development of the area.

At our Central Region, we are proceeding with an initial 13-well drilling and re-completion program for conventional and coalbed methane potential on a 37-section land block. Subject to production performance, this program could be significantly increased.

Other activities include continuing exploration and development in the Berry area and the third phase of our shallow natural gas project, consisting of 40-45 wells at Winnifred.

In closing, I want to thank our employees for their excellent contributions and dedication over the past year. Our results are fully attributable to their collective efforts. I also wish to express my appreciation to our Board of Directors for their sound and diligent oversight and guidance.

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to read "B. Lemke", with a stylized, cursive script.

Brian Lemke

President and Chief Executive Officer

March 26, 2004

CHAIRMAN'S MESSAGE

Never has corporate governance been as topical and evolving as over the past two years. On a regular, often weekly, basis we have seen new stories of corporate malfeasance or failures, highlighted by the question: "Where were the directors?" Spurred by such events, politicians and regulators have rushed in with new regulations and laws. In some respects, these new laws are constructive, encoding best practices that most Boards strive to follow. However, an unfortunate consequence of heightened regulatory oversight can be too narrow a focus on legal and compliance issues and substantially higher costs, with less time allocated to broader corporate development and strategic issues. Resolute is conscious of this direction and has worked purposefully to maintain balance.

Resolute's Board of Directors is characterized by its independence, commitment to best practices and active engagement with management on the growth and development of the Company. These qualities have been in place from inception and served us well during the recent, rapid changes in laws and regulations.

Seven of our nine directors are considered independent under the range of existing and new definitions. As well, the roles of the Chairman and Chief Executive Officer are separate and only one management director, Brian Lemke, sits on the Board. The Board fulfills its mandate with the help of four standing committees, each with clear written terms of reference: the Audit and Finance; Technical; Human Resources and Governance; and Corporate Advisory committees. The Chief Executive Officer sits only on the Corporate Advisory Committee, which provides a sounding board for management on strategic and other matters.

In 2003, the full Board met seven times (including conference call meetings) and the committees of the Board met, collectively, 12 times. Additionally, the Board held a strategic planning session in June, covering the long-term plans and development of the Company and has scheduled specific strategic issues discussions in concert with each Board meeting through 2004.

The Board addressed a number of significant strategic issues. First and foremost were the key executive appointments. These additions provide the foundation for, and are a critical part of, the continued success of the Company. Additionally, the process, price and terms for the sale of Indonesia; Resolute's sustainable business plan; capital budget, acquisition and project reviews and approvals; and the assessment of the Company's progress against defined objectives, among other matters captured the Board's attention.

The Company and the staff have made great strides over the last year and we look forward to continuing to work with them and to serve you in the coming year.

On behalf of the Board,



S. Barry Jackson
Chairman

BOARD OF DIRECTORS



S. Barry Jackson, Chairman and Director – Calgary, Alberta

Mr. Jackson serves on the boards of Nexen Inc., TransCanada Pipelines Limited, Deer Creek Energy Limited, Calgary YMCA and the Calgary Petroleum Club.

Douglas D. Baldwin, Director – Calgary, Alberta

Mr. Baldwin has been a corporate director since April 2001, serving on the Boards of TransCanada Pipelines Limited, Talisman Energy Inc., UTS Energy Inc., Citadel Investment Fund, Calgary Airport Authority and Board of Governors, University of Calgary.



Donald P. Driscoll, Director – Calgary, Alberta

Mr. Driscoll is President and Chief Executive Officer and a director of NAL Resources. Mr. Driscoll has also been active as a director and officer of The Oilmen and the Calgary Petroleum Club.

Brian K. Lemke, President, Chief Executive Officer and Director – Calgary, Alberta

Brian Lemke was appointed President and Chief Executive Officer and a director on November 26, 2002, prior to which he was Executive Vice-President of the Company. Mr. Lemke also serves as a director of Deer Creek Energy Ltd.



Douglas G. Manner, Director – Dallas, Texas

Mr. Manner is acting as Senior Vice President and Chief Operating Officer of Kosmos Energy Ltd. Mr. Manner also serves on the Boards of White Stone Energy Corp. and Blizzard Energy Inc.

Paul G. McDermott, Director – Purchase, New York

Mr. McDermott is the Managing Partner of Cadent Energy Partners. Mr. McDermott also serves on the Boards of GT Equipment Technologies, Maverick Tube Corp., Harmonics Limited Inc., Nyttis Exploration Company and Tripoint Energy Services Inc.



Robert R. Rooney, Director – Calgary, Alberta

Mr. Rooney is a partner with Bennett Jones LLP and leads the firm's Energy law practice group. Mr. Rooney is also a director of Temple Exploration Inc., Blizzard Energy Inc., Mission Resources Corp. and Ferus Gas Industries Trust.

Jeffrey T. Smith, Director – Calgary, Alberta

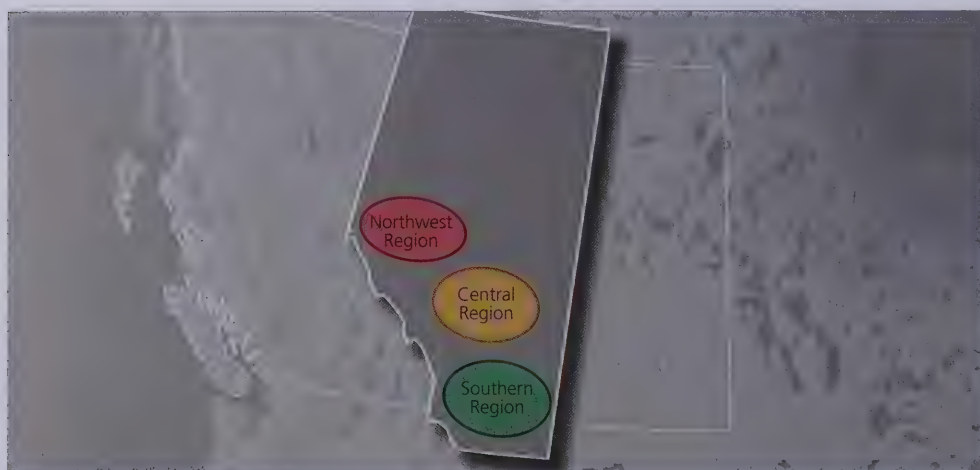
Jeffrey Smith is currently a corporate director. Mr. Smith is a director of Compton Petroleum Corporation, Provident Energy Trust, Rosetta Exploration Inc., and Intrepid Energy Corporation.



Mac Van Wielengen, Director – Calgary, Alberta

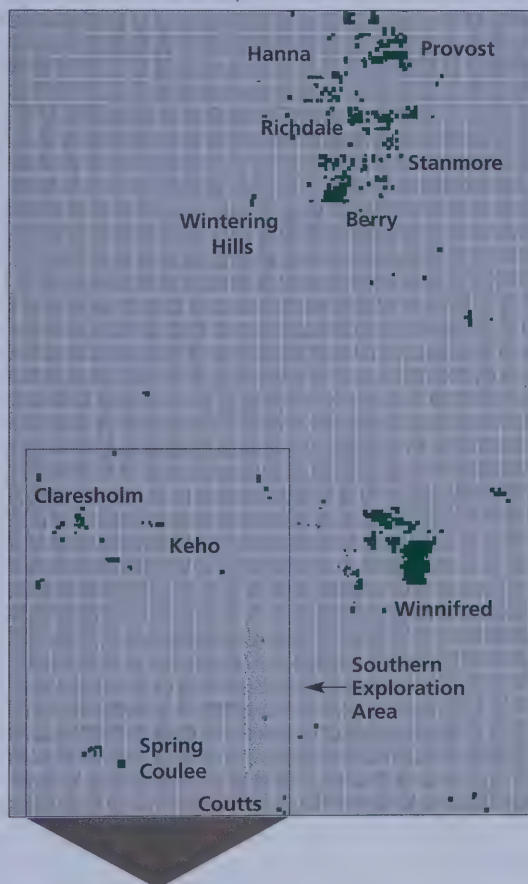
Mr. Van Wielengen is a founder and Co-Chairman of ARC Financial Corporation and is a founder and Chairman of ARC Energy Trust. He also serves on the Boards of Krang Energy Inc. and Western Oil Sands Inc. and has been active with the United Way since 1997.

OPERATIONS REVIEW



Region	2003 Exit Production (boe/day)	% Gas	Proved Reserves (mboe)	2003 Capital (\$000s)	Net Wells Drilled	Success Rate (%)	Undeveloped Land (net acres)	Average W.I. (%)
Southern Region								
Berry	1,700	90	3,928	22,278	24.6	94	67,521	74
Winnifred	700	100	2,248	11,290	60.4	100	41,689	96
SE Alberta	493	11	720	1,011	1.2	100	5,309	47
SW Alberta	14	—	23	3,123	3.0	67	22,294	94
Saskatchewan	350	4	847	1,862	3.0	100	9,279	64
	3,257	72	7,766	39,564	92.2	97	146,092	79
Central Region								
Bigoray	625	86	2,230	710	—	—	5,102	56
Central Alberta	530	95	629	5	—	—	5,660	40
Malmo	151	99	424	224	—	—	10,736	89
Willesden Green	269	75	808	3,585	3.5	100	12,181	91
	1,575	89	4,091	4,524	3.5	100	33,679	69
Northwest Region								
Ante Creek	73	—	702	6,880	2.0	100	6,720	100
Gordondale	550	70	1,282	6,014	4.0	50	30,803	68
Kaybob	445	22	1,189	1,064	—	—	4,859	50
British Columbia	—	—	—	595	—	—	21,826	52
	1,068	45	3,173	14,553	6.0	67	64,208	62
Other	—	—	—	4,351	—	—	—	—
TOTAL	5,900	71	15,030	62,992	101.7	95	243,979	72

SOUTHERN REGION



SOUTHERN EXPLORATION AREA

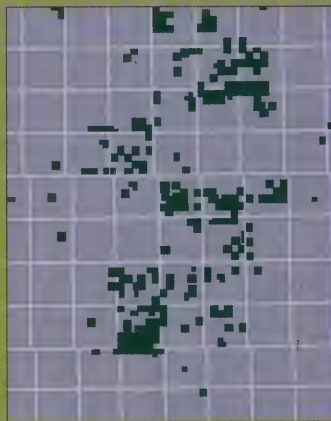
- > In 2003, Resolute acquired Crown and freehold lands on over 10 prospects targeting Barons oil, Bow Island gas, Glauconitic gas, Sunburst gas and Turner Valley gas at depths between 1,500 and 2,500 metres.
- > Three wells drilled in 2003 resulted in one Barons oil well at Keho and two dry holes at Claresholm and Spring Coulee.
- > Company plans to pursue high-impact targets in 2004.

- > Resolute's South Region of focus is comprised of a shallow (<650 metres), natural gas producing property at Winnifred, a medium-depth (<1,200 metres) producing property at Berry and a southwestern Alberta area of deeper exploration (1,500-2,500 metres).
- > The South Region accounted for approximately 48% of 2003 corporate production. It was the most active region for drilling with over 90 wells drilled and for land acquisition with over 118 net sections acquired.
- > In 2003, Resolute's exploration and development scope at Berry expanded from two townships to a 24-township corridor between Berry in the south end and Provost in the north end. An \$8.1 million property acquisition in April 2003 in the Hanna-Stanmore area provided a catalyst for property growth.
- > In 2003, Resolute added 41,032 net acres of land at Berry with potential for further drilling locations.



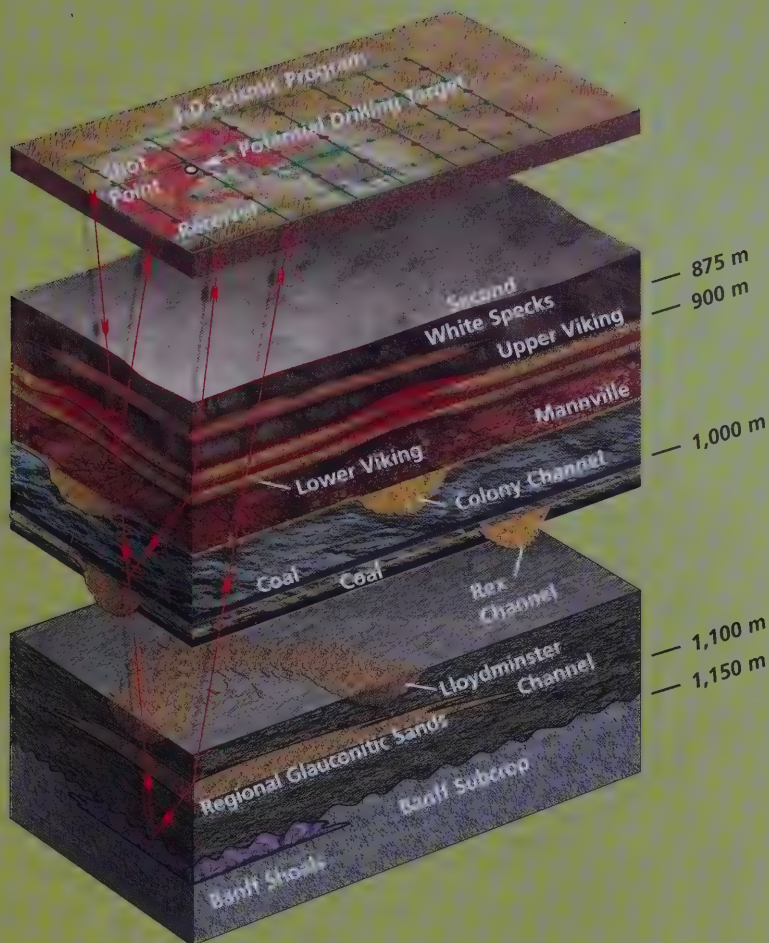
WINNIFRED

- > Winnifred is a low-risk, shallow natural gas property with drilling depths of approximately 650 metres.
- > In 2003, Resolute drilled 56 Second White Specks gas wells on the southern portion of the property.
- > Lands mainly assembled in late 2002 in the northern portion of the Winnifred property were delineated by four successful wells in 2003.
- > In 2004 Resolute plans to drill a minimum of 15 wells and plans to re-complete six wells.
- > Resolute plans to drill 40-45 wells at North Winnifred during 2004.
- > Production at Winnifred has increased from 300 boe/day in June 2002 to 645 boe/day in December 2003.



BERRY AREA

- > In 2003 Resolute drilled 25 net wells with 94% success and re-completed 11 wells.
- > Production in the Berry area increased from 700 boe/day in June 2002 to 1,700 boe/day in December 2003.
- > In 2003, Resolute added 84 net sections at Berry and has generated a drilling prospect inventory of over 30 wells.



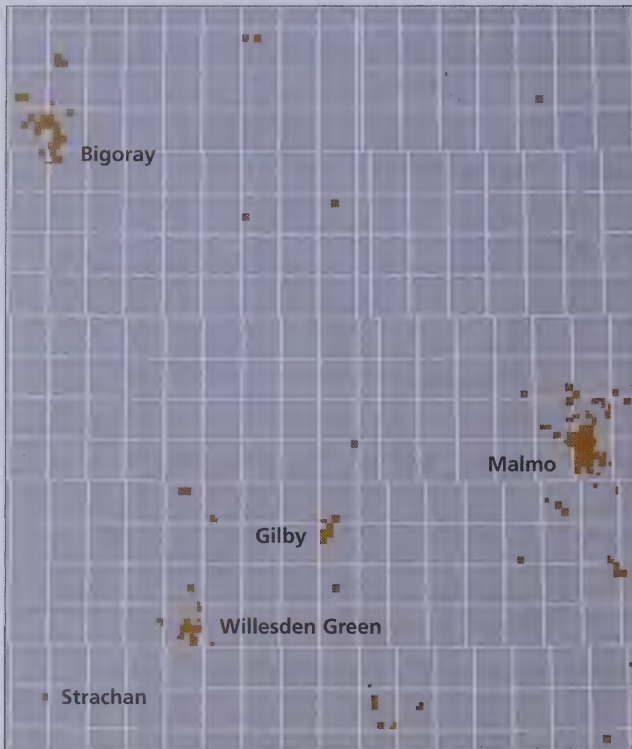
BERRY AREA GEOLOGY

In the Berry-area corridor Resolute employs cost-effective 3-D seismic programs. These are one-to-three square miles in size and are used to precisely define Mannville Group lithic channel gas fairways and other isolated gas-prone structures. Shallower Viking Formation sands as well as regional Mannville sands may also be imaged with these 3-D seismic programs and offer secondary targets that can sometimes be accessed through a single well bore.

This exploration methodology and the identification of multiple pay zones have helped Resolute attain a high success rate.

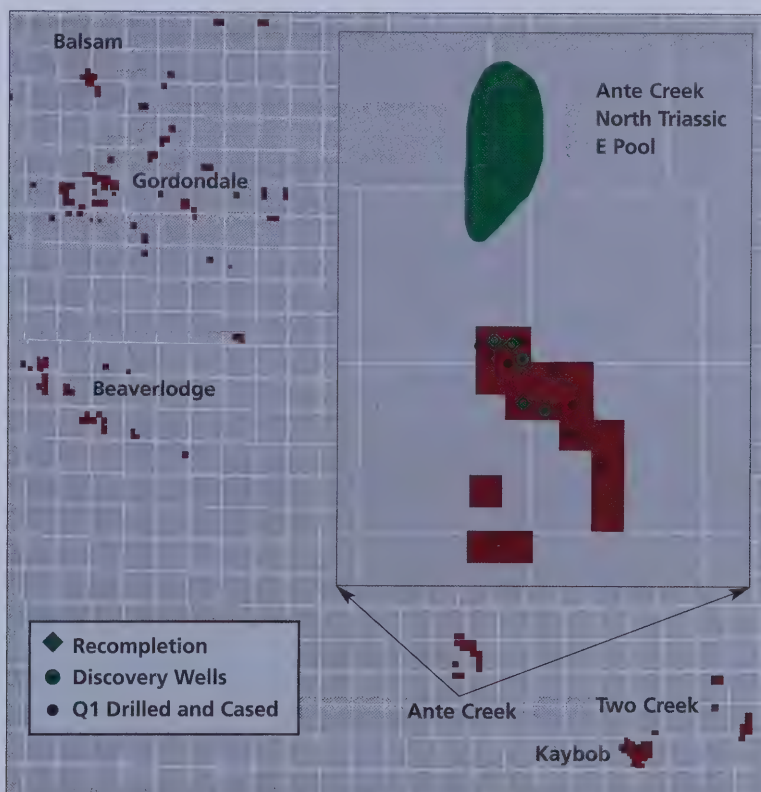
Resolute lands in the north portion of the Berry corridor also provide low-risk, shallow natural gas targets in the Second White Specks Formation. Slightly deeper and higher-impact gas and oil prospects are planned for 2004.

CENTRAL REGION



- > In 2003, Resolute drilled 2.5 net Edmonton natural gas wells, one Cardium oil well and re-completed one Edmonton natural gas well and two Cardium natural gas wells.
- > Resolute has assembled lands for a prospect inventory of eight drilling locations targeting Cardium natural gas and oil, Glauconite gas, and Pekisko and Banff natural gas.
- > In Q1 2004, Resolute completed a pilot program of six CBM re-completions of suspended well bores in the Central Region, and is currently monitoring production.
- > Also in Q1 2004, three new wells were drilled for shallow gas targets in the Edmonton and Belly River sandstones.
- > Based upon results of the Central Region re-completion and drilling program, Resolute will consider further programs in 2004 and 2005.

NORTHWEST REGION



- > Resolute's first year of exploration in the Northwest region resulted in two light oil discoveries at Beaverlodge and Ante Creek.
- > Production from the Northwest Region averaged 1,068 boe/day at the end of 2003.



ANTE CREEK

- > In 2003, Resolute acquired 11.5 sections of 100-percent working-interest land.
- > In August 2003, Resolute drilled two Montney light oil discoveries. The wells showed concentrations of associated natural gas at 6-30-65-24W5 and 2-1-66-25W5.
- > The natural gas will ultimately be produced to a Resolute-operated plant and associated facilities, which are under construction.
- > Resolute has drilled and cased eight wells in Q1 2004 and re-completed three acquired well bores.

ENVIRONMENT, HEALTH AND SAFETY

Resolute recognizes the importance of environmental protection and is committed to providing a safe and healthy work environment. Resolute is proud of its high standard of environment, health and safety performance which is clearly demonstrated in the following initiatives and results for 2003.

HIGHLIGHTS FOR 2003:

- > There were no lost-time accidents by any of our contractors or employees.
- > There were two minor, but reportable oil and water spills, which were fully contained within designed containment.
- > The Company conducted three successful EH&S audits of the Berry, Willesden Green and Winnifred areas.
- > The Company has completed a Contractor Management Program to ensure contractors working for Resolute have adequate insurance provisions, Worker's Compensation coverage and appropriate safety programs.
- > Resolute has updated its Health and Safety Manual to reflect new OH&S regulations and codes of practice.
- > The Company has initiated a hazard identification system as a means of providing continuous improvement to its EH&S performance.
- > The Company has elected to participate in the Silver Category with respect to the CAPP Stewardship Program, which will see it exceed regulatory standards.
- > The Company has established a Community Relations Policy reflecting its desire to be a good corporate neighbour in the communities in which it conducts its business.

Resolute will continue to focus on maintaining a healthy and safe environment throughout its operations and at all work sites. The Company is committed to ensuring that all employees, contractors and subcontractors are made aware of and adhere to all environmental and safety practices governed by regulatory legislation, industry guidelines and Company practice.

Management reports quarterly to the Resolute Board on EH&S activities to ensure that a high level of performance is maintained and to ensure that our employees, community stakeholders and the environment are protected while the Company is engaged in exploration and development activities.

OPERATIONS STATISTICAL REVIEW

Undeveloped Land Holdings

(Acres)	2003		2002	
	Gross	Net	Gross	Net
Opening – January 1, 2003	292,156	209,341	250,162	165,459
Crown and freehold purchases ⁽¹⁾	109,840	89,027	42,894	42,894
Property acquisitions/farm-ins	5,000	3,007	9,175	7,132
Expiries	(70,076)	(57,396)	(10,075)	(6,144)
Closing – December 31, 2003	336,920	243,979	292,156	209,341
Average working interest (%)		72		72

(1) Opening 2002 undeveloped land represents undeveloped acres acquired with the Equatorial acquisition.

Land Position at December 31, 2003

Region	Undeveloped Acres			Developed Acres			Total Acres		
	Gross	Net	Avg. W.I.	Gross	Net	Avg. W.I.	Gross	Net	Avg. W.I.
Northern	103,423	64,208	62%	54,240	23,641	44%	157,663	87,849	56%
Central	184,635	146,091	79%	134,445	88,389	66%	319,080	234,480	73%
Southern	48,863	33,680	69%	62,799	41,884	67%	111,662	75,564	68%
Total	336,920	243,979	72%	251,484	153,914	61%	588,404	397,894	68%

Drilling Results

(Wells Drilled)	2003		2002 ⁽¹⁾	
	Gross	Net	Gross	Net
Natural gas	90	84.7	50	47.6
Oil	13	12.0	3	2.0
Dry	6	5.0	5	4.0
Total	109	101.7	58	53.6
Average working interest (%)		93		92
Success rate (%)		95		93

(1) Represents wells drilled from July to December 2002 following the Equatorial acquisition.

REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR

To the Board of Directors of Resolute Energy Inc. (the Company):

1. We have prepared an evaluation of the Company's reserves data as at December 31, 2003. The reserves data consist of the following:

- (a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2003, using forecast prices and costs; and
- (ii) the related estimated future net revenue; and
- (b) (i) proved oil and gas reserves estimated as at December 31, 2003, using constant prices and costs; and
- (ii) the related estimated future net revenue.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the COGE Handbook) prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10%, included in the reserves data of the Company evaluated by us for the year ended December 31, 2003, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's Board of Directors:

Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate)			
		Audited	Evaluated	Reviewed	Total
January 15, 2004	Canada	\$0	\$173,719M	\$0	\$173,719M

5. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.

6. We have no responsibility to update this evaluation for events and circumstances occurring after the preparation date.

7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Gilbert Laustsen Jung Associates Ltd.
Calgary, Alberta, Canada



Wayne W. Chow, P. Eng
Vice-President
February 17, 2004

The reserves data set forth in this section has been extracted from an evaluation by Gilbert Laustsen Jung Associates Ltd. (GLJ) with an effective date of December 31, 2003. The reserves tables included in this section are based on the future price and cost assumptions as established by GLJ. The full National Instrument 51-101 Form 1 required disclosure documents are included in the Company's Annual Information Form and can be accessed on Resolute's website at www.resoluteenergy.com.

Company Interest Reserves

(includes working interests and royalty interests)

	2003				2002				Year to Year Change	
	Crude Oil	Natural Gas	NGLs	Oil Equiv.	Crude Oil	Natural Gas	NGLs	Oil Equiv.	Oil Equiv.	
	(mbbls)	(mmcf)	(mbbls)	(mboe)	(mbbls)	(mmcf)	(mbbls)	(mboe)	(mboe)	(%)
Proved										
Producing	3,051	54,410	645	12,764	2,614	41,458	762	10,286	2,478	24.1
Non-producing	98	11,840	190	2,262	136	9,450	172	1,883	379	20.1
Total proved	3,149	66,250	835	15,026	2,751	50,908	934	12,169	2,857	23.5
Probable	608	17,590	151	3,690	412	17,601	261	3,607	83	2.3
Proved plus probable*	3,757	83,840	986	18,716	3,163	68,509	1,195	15,776	2,940	18.6

* Resolute is using the December 31, 2002 established (proved plus one-half probable) reserves as a comparison to December 31, 2003 proved plus probable reserves to reflect the difference in the risk applied to these reserves as a result of the NI 51-101 guidelines.

Net Present Values of Future Net Revenue

Reserves Category	Before Income Taxes Discounted At (%/yr)					After Income Taxes Discounted At (%/yr)				
	0	5	10	15	20	0	5	10	15	20
	(\$MM)	(\$MM)	(\$MM)	(\$MM)	(\$MM)	(\$MM)	(\$MM)	(\$MM)	(\$MM)	(\$MM)
Proved										
Producing	178,969	150,501	128,603	112,985	101,397	144,424	121,760	103,815	91,056	81,632
Non-producing	32,742	26,545	22,402	19,423	17,171	19,876	15,622	12,830	10,849	9,369
Total proved	211,711	177,046	151,005	132,408	118,568	164,300	137,382	116,645	101,905	91,001
Probable	55,419	33,563	22,714	16,458	12,457	36,218	21,221	13,898	9,697	7,015
Total proved plus probable	267,130	210,609	173,719	148,866	131,025	200,518	158,603	130,543	111,602	98,016

Summary of GLJ Pricing and Inflation Rate Assumptions

(Forecast Prices and Costs)

Year	WTI Cushing, Oklahoma (US\$/bbl)	Edmonton Par Price 40° API (Cdn\$/bbl)	Cromer Medium 29.3° API (Cdn\$/bbl)	Natural Gas AECO Gas Price / (Cdn\$/MMBtu)	Exchange Rate (US\$/Cdn\$)
Historical ⁽⁴⁾					
2000	30.22	44.56	39.91	5.08	0.674
2001	25.97	39.40	31.56	6.21	0.645
2002	26.08	40.33	35.48	4.04	0.638
2003	30.96	43.51	37.26	6.66	0.721
Forecast					
2004	29.00	37.75	31.75	5.85	0.750
2005	26.00	33.75	28.75	5.15	0.750
2006	25.00	32.50	28.50	5.00	0.750
2007	25.00	32.50	28.50	5.00	0.750
2008	25.00	32.50	28.50	5.00	0.750
Thereafter	25.00	32.50	28.50	5.00	0.750

Finding, Development and Acquisition Costs – 2003

(Includes all reserves and capital for all exploration, development and acquisition activities. The analysis incorporates the effect of future capital and the effect of revisions.)

\$thousands, except units and unit costs	Proved	Proved plus Probable
Exploration and development capital	\$ 54,763	\$ 54,763
Acquisition capital	8,229	8,229
Total capital	62,992	62,992
Future capital at December 31, 2003	9,133	16,467
Future capital at December 31, 2002	(8,905)	(21,778)
Total, including change in future capital	\$ 63,220	\$ 57,681
Exploration and development reserve additions (mboe)	4,384	4,157
Acquisition additions (mboe)	845	1,203
Revisions (mboe)	(326)	(374)
Net total reserve additions (mboe)	4,903	4,986
Finding, development and acquisition cost (\$/boe)	\$ 12.90	\$ 11.57

Finding, Development and Acquisition Costs – Inception to Date

(Includes all reserves and capital for all exploration, development and acquisition activities since the inception of Resolute Energy. This includes the initial acquisition of Equatorial Energy and the subsequent disposition of its Indonesia assets. The analysis incorporates the effect of future capital.)

\$thousands, except units and unit costs	Proved plus	
	Proved	Probable
2002 acquisition of Equatorial Energy	\$ 132,440	\$ 132,440
2003 disposition of Indonesia assets	(23,500)	(23,500)
Net corporate acquisition cost	108,940	108,940
2002 capital	19,287	19,287
2003 capital	62,992	62,992
Total, capital since inception	\$ 191,219	\$ 191,219
Future capital at December 31, 2003	9,133	16,467
Total, including future development capital	\$ 200,352	\$ 207,686
2002 production (mboe)	891	891
2003 production (mboe)	2,046	2,046
Reserves at December 31, 2003 (mboe)	15,026	18,716
Total reserve additions (mboe)	17,963	21,653
Finding, development and acquisition cost (\$/boe)	\$ 11.16	\$ 9.59

Net Asset Value (unaudited)

(\$millions, except as noted)	Pre-tax Net Present Value Discounted At		After-tax Net Present Value Discounted At	
	10%	12%	5%	10%
Reserves – proved plus probable ⁽¹⁾	173.7	162.7	158.6	130.5
Undeveloped land ⁽²⁾	24.4	24.4	24.4	24.4
Debt and working capital deficit	(19.8)	(19.8)	(19.8)	(19.8)
Estimated net asset value	178.3	167.3	163.2	135.1
NAV per share – basic	\$ 2.97	\$ 2.78	\$ 2.72	\$ 2.25
NAV per share – diluted	\$ 2.88	\$ 2.71	\$ 2.65	\$ 2.23

(1) Net present values based on independent evaluation prepared by Gilbert Laustsen Jung Associates Ltd. using forecast product pricing and costs.

(2) Undeveloped land is based on \$100/acre.

Reserves Replacement

	2003	2002
Production (mboe)	2,046	958
Proved reserves		
Net reserve additions (mboe)	4,903	1,952
Replacement ratio	2.4	2.0
Proved plus probable		
Net reserve additions (mboe)	4,986	2,410
Replacement ratio	2.4	2.5

Company Interest Reserve Reconciliation

(Includes working interests and royalty interests.)

	Crude Oil (mbbls)	Natural Gas (mmcf)	NGLs (mbbls)	Oil Equiv. (mboe)
Proved Producing				
Opening balance	2,614	41.46	762	10,286
Drilling additions	498	16.05	62	3,234
Improved recovery	56	2.39	13	467
Revisions	387	(0.91)	(131)	106
Acquisitions	41	3.93	20	717
Production	(546)	(8.51)	(82)	(2,046)
Closing balance	3,051 ⁽¹⁾	54.41	645	12,764
Total Proved				
Opening balance	2,751	50.91	934	12,169
Drilling additions	546	20.40	143	4,079
Improved recovery	12	1.70	9	305
Revisions	342	(2.93)	(189)	(326)
Acquisitions	44	4.68	20	845
Production	(546)	(8.51)	(82)	(2,046)
Closing balance	3,149 ⁽¹⁾	66.25	835	15,026
Total Proved Plus Probable⁽¹⁾				
Opening balance	3,163	68.51	1,195	15,776
Drilling additions	693	17.60	193	3,825
Improved recovery	13	1.90	10	332
Revisions	373	(2.36)	(357)	(374)
Acquisitions	60	6.70	27	1,203
Production	(546)	(8.51)	(82)	(2,046)
Closing balance	3,757 ⁽¹⁾	83.84	986	18,716

(1) Resolute is using the December 31, 2002 established (proved plus one-half probable) reserves as a comparison to December 31, 2003 proved plus probable reserves to reflect the difference in the risk applied to these reserves as a result of the NI 51-101 guidelines.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) of the financial condition and the results of operations should be read in conjunction with the audited consolidated financial statements and annual MD&A for the years ended December 31, 2003 and 2002, together with the accompanying notes. This MD&A is effective March 24, 2004. Additional information relating to the Company, including the Annual Information Form can be viewed or downloaded at: www.resoluteenergy.com or www.sedar.com.

Production information is commonly reported in units of barrel of oil equivalent or boe. For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. The conversion ratio of 6:1 is based on an energy equivalency conversion method, which is primarily applicable at the burner tip. It does not represent equivalent wellhead value for the individual products. Such disclosure of boes may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance. All figures are reported in Canadian dollars unless otherwise noted.

FORWARD-LOOKING STATEMENTS

The information contained herein contains forward-looking statements and assumptions, such as those relating to results of operations and financial condition, capital spending, financing sources, commodity prices, costs of production and the magnitude of oil and natural gas reserves. By their nature, forward-looking statements are subject to numerous risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, actual results may differ materially from those predicted. The forward-looking statements contained herein are as of March 24, 2004 and are subject to change after this date. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Resolute disclaims any intention or obligation to update or revise these forward looking statements, whether as a result of new information, future events or otherwise.

NON-GAAP MEASURES

Cash flow, which is expressed before changes in non-cash working capital, is used by the Company to analyze operating performance, leverage and liquidity. Income from operations, which represents net income excluding gains or losses on foreign currency translation and on disposal of assets, is used by the Company to evaluate operating performance. Operating netback, which is calculated as the average unit sales price, less royalties and operating expenses, and corporate netback, which deducts administrative and interest expense and current income tax, represent the cash margin for every barrel of oil equivalent sold. Cash flow, income from operations and netback do not have any standardized meanings prescribed by Canadian Generally Accepted Accounting Principles (GAAP) and therefore may not be comparable with the calculation of similar measure for other companies.

CRITICAL ACCOUNTING ESTIMATES

Management makes certain judgements and estimates in preparing financial statements in accordance with GAAP. Changes to these judgements and estimates could have a material effect on Resolute's financial statements and financial position. The estimates of proved and probable reserves are critical to many aspects of the Company's financial statements, including net income through the calculation of depletion and depreciation, the determination of future abandonment and site restoration costs and the application of the ceiling-test calculation. The carrying amount of property, plant and equipment, as well as the amount recorded for depletion, depreciation and accretion (DD&A) may be affected by these judgments.

COMPARABILITY OF PRIOR PERIOD RESULTS

The comparable financial and operating results for 2002 include the partial period of operations from the closing date of the Equatorial Energy Inc. (Equatorial) transaction on June 14, 2002. Prior to this time, Resolute did not have material assets or operations. Some variances between 2003 and 2002 reporting periods will appear disproportionate due to the limited period of operations during 2002. The distorting effect on the year-to-year comparative analysis is common throughout the MD&A. Comparative results do not include 2001 results as the Company was inactive in its incorporation year.

2003 OVERVIEW

During 2003, Resolute continued its transition to an internally-generated growth strategy following the acquisition of Equatorial Energy Inc. in June 2002. In accomplishing this goal, the Company made significant changes to its management, technical and financial staff. During the year, the technical team successfully evaluated, developed and explored existing properties while identifying new areas for potential growth. The team assembled a significant undeveloped land position and identified exploration and development drilling prospects for 2004 and beyond. The Company was very active during the year, drilling 109 wells and investing \$63 million of total capital. The effort resulted in production and reserves growth in 2003. Resolute was able to maintain a strong balance sheet during the year with the sale of its Indonesian subsidiaries in July 2003 and the benefit of high commodity prices which positively influenced financial performance.

ACCOUNTING FOR SALE OF INDONESIAN OPERATIONS

Current and comparative amounts have been restated to account for the sale of Indonesia operations (Equatorial Energy (Indonesia) Inc.) on July 23, 2003. The accompanying table provides a summary of the results of these discontinued operations for the periods ended December 31, 2003 and 2002. Refer to note 5 of the Consolidated Financial Statements for further details of the transaction.

The Company added production throughout 2003 with successful drilling and property acquisitions. Year-to-year comparisons are not meaningful due to the partial year of operations in 2002.

Discontinued Operations – Summary of Results

Year ended December 31	2003 ⁽¹⁾	2002
Revenue	19,498	18,816
Cash flow	4,041	7,520
Net income (loss)	638	2,129
Net income (loss) from discontinued operations	(5,913)	2,129
Capital expenditures	4,240	6,842

(1) 2003 results represent discontinued operations to the date of sale on July 23, 2003.

Continuing Operations – Canadian Production

Year ended December 31	2003	2002
Natural gas (mcf/day)	23,319	10,522
Oil (bbls/day)	1,500	716
NGLs (bbls/day)	220	156
Total (boe/day)	5,606	2,626

Production increased by 19% for the fourth quarter of 2003 compared to the same quarter in 2002.

Natural gas production increased by 27% or 5.3 mmcf/day, primarily as a result of successful drilling at the Company's Berry core area in our Southern Region. The Company completed a property acquisition in April 2003 of approximately 1.5 mmcf/day at Berry and also added production from the drilling of new wells at the end of 2002 and during 2003.

Oil production increased by 12% (158 bbls/day) in the last quarter of 2003 compared to the same quarter in 2002. Most of the producing oil additions represented new production from successful drilling in northern Alberta and southeast Saskatchewan. Natural gas liquids production declined by 31% (94 bbls/day) in 2003 as a result of natural declines of liquids-rich gas from properties in our Central and Northwest regions.

Resolute's production is weighted 70% to natural gas. The production base is geographically balanced with properties located in the Southern, Central and Northwest regions. This diversification reduces the Company's exposure to significant production or reserves declines at any property.

The Company commenced its 2004 drilling program targeting light crude oil and natural gas primarily in Alberta. Average production for 2004 will depend on drilling success and the time required to put new or re-completed wells on production.

Petroleum and Natural Gas (P&NG) Revenue

Year ended December 31	2003	2002
(\$000s)		
Natural gas sales	55,771	16,433
Oil sales	20,409	9,906
NGL sales	2,766	1,734
	78,946	28,073
Royalty income	943	336
Hedge gain/(loss)	–	(181)
Total P&NG sales	79,889	28,228

P&NG revenue for the fourth quarter of 2003 increased by 20% to \$18.9 million versus the fourth quarter of 2002. Year-over-year, revenue increased by 183% to \$79.9 million, as a result of having the first full year of production following the Equatorial acquisition in 2002 and higher natural commodity prices.

Prices and Marketing

Year ended December 31	2003	2002
Benchmark prices:		
AECO natural gas (\$/mcf)	6.67	4.08
WTI oil (US\$/bbl)	31.04	26.08
CDN/USD foreign exchange rate	0.72	0.64
WTI oil (CDN equivalent – \$/bbl)	43.35	40.94
Edmonton Light	43.14	39.94

Average Sales Price – Cdn\$

Year ended December 31	2003	2002
Natural gas (\$/mcf)	6.64	4.34
Oil (\$/bbl)	37.60	38.25
NGLs (\$/bbl)	35.29	30.77
Total (\$/boe)	39.04	29.45

U.S. natural gas prices are typically referenced off NYMEX at Henry Hub, Louisiana, while Western Canada natural gas prices are referenced to the AECO Hub in Alberta. Resolute's average natural gas prices increased by 4% in the fourth quarter of 2003 and 53% annually, paralleling the trend of AECO benchmark prices. Future natural gas prices will depend on supply-demand fundamentals, primarily within North America and also the future supply of liquid natural gas. Natural gas prices can be volatile and the future trend cannot be reasonably predicted.

West Texas Intermediate at Cushing, Oklahoma (WTI) is the benchmark for North American crude oil prices. Canadian crude oil prices are based on refiners' postings, primarily at Edmonton, Alberta, and represent the WTI price after adjusting for transportation, quality differentials and the Canadian/U.S. exchange rate. The WTI price, which is set in U.S. dollars, increased by 11% for the fourth quarter and 19% for the year while the Canadian equivalent price decreased by 4% for the three months and increased by only 6% for the year. The 19% improvement in the Canadian/U.S. dollar exchange rate offset increases to the WTI prices in U.S. dollars. The WTI prices, measured in either currency, have been high relative to historical comparisons. The trend of future prices will depend on a number of factors related to world supply and demand fundamentals and foreign exchange rates, none of which can be accurately predicted.

Resolute reported a 6% decrease in its average oil price for the final quarter of 2003 and a 2% decline for the year despite increases in benchmark oil pricing described above. The decrease represents a quality differential for the Company's crude oil in 2003.

The Company had no hedging contracts outstanding during 2003.

Royalties

Year ended December 31	2003	2002
(\$000s)		
Crown	11,250	5,008
Freehold, GORR	4,456	1,233
ARTC	(408)	(122)
Total royalties	15,298	6,119
Average Royalty Rate (average % of sales)		
Crown	14%	18%
Freehold, GORR	6%	4%
ARTC	(1%)	—
Total royalties	19%	22%

Royalties as a percentage of revenue decreased to 17% from 22% for the fourth quarter and to 19% from 22% for the year ended December 31, 2003. The lower royalty rates for both periods relate primarily to lower Crown royalties. Several factors contributed to the Company's lower Crown royalty rates:

- (a) Low productivity wells: Resolute has added new production primarily at its shallow natural gas project at Winnifred, Alberta, which qualifies for low royalty rates as a result of its low productivity as determined by the Department of Energy in Alberta.
- (b) Reference price lower than Company average price: The Alberta natural gas reference price on which Crown royalties are calculated was lower relative to realized wellhead prices for natural gas.
- (c) Royalty holidays: The Company qualified for royalty holiday status on a number of new wells in Alberta. The holiday expires on the earlier of one year or one million dollars of Crown royalties.

The normalized royalty rate for Company production is expected to be approximately 20% of revenue, but will vary in the future according to a number of factors including: type of royalty (Crown vs. freehold); future reference prices relative to average wellhead prices; timing of expiry of royalty holidays on existing wells and the proportion of new production additions qualifying for royalty holidays; and the level of gross overriding royalties relating to farm-in arrangements.

Operating Expenses

Year ended December 31	2003	2002
(\$000s, except per boe)		
Production expense (gross)	15,880	7,605
Processing income	(494)	(319)
Production expense (net, as reported)	15,386	7,286
Production expense per boe (net)	7.52	7.60

Operating expenses for the fourth quarter were \$7.50/boe, in line with the yearly average of \$7.52/boe.

Operating expenses in 2003 were slightly lower than the 2002 average of \$7.60/boe.

In 2004, management has identified several initiatives which are expected to result in modest decreases to per unit operating costs, including:

- > improved field operations;
- > new production additions from wells that are less expensive to produce than the Company average;
- > increased operatorship of properties and facilities; and
- > potential disposition of assets that are mature and higher cost.

General and Administrative Expense (G&A)

Year ended December 31	2003	2002
(\$000s, except per boe)		
G&A expense (gross)	8,345	5,317
Overhead recoveries	(1,244)	(434)
	7,101	4,883
Allocated to production expense	(132)	(76)
Allocated to capital projects	(2,049)	(992)
Cash G&A	4,920	3,815
Stock-based compensation	364	–
G&A expense	5,284	3,815
Cash G&A per boe	2.40	3.98
G&A expense per boe	2.58	3.98

Cash G&A expense for the final quarter of 2003 was 1.2 million, a 38% decrease from the comparative quarter in 2002. The 2002 figure included one-time costs of \$0.5 million related to the takeover of Equatorial Energy in 2002 and G&A efficiencies and high recoveries in 2003. Cash G&A per boe decreased to \$2.22 from \$4.26 as a result of the reduction in one-time costs and lower cash G&A costs allocated over a larger production base.

Cash G&A expenses for the year increased to \$5.3 million from \$3.8 million in 2002. The increase represents the higher cost of adding new employees as part of the Equatorial transaction in June 2002 and additional professional staff required for future growth.

On a per boe basis, cash G&A costs decreased to \$2.40 from \$3.98 in the previous year. The 40% decrease results from applying a partial year of production in 2002 over the G&A expense for the entire year.

Management expects further G&A efficiencies on a boe basis in 2004.

Stock-based compensation classified as non-cash G&A amounted to \$0.2 million for the quarter and \$0.4 million for the year. The stock-based compensation amount will be determined by future stock option grants and expiries.

INTEREST EXPENSE

Interest expense for the year increased by \$0.4 million to \$0.9 million in 2003 compared to \$0.5 million in 2002. The primary reason for the increase relates to the mid-year acquisition of Equatorial Energy in June 2002. The Company had no debt prior to the acquisition.

Depletion, Depreciation and Amortization (DD&A)

Year ended December 31	2003	2002
(\$000s)		
Depletion and depreciation	18,428	8,460
Site restoration	990	632
	19,418	9,092
Write-down of P&NG assets	—	33,000
Cost per boe		
Depletion and depreciation	9.01	8.83
Site restoration	0.48	0.66
	9.49	9.49

Depletion and depreciation per boe increased by 17% for the quarter and 2% for the year. The higher rate, particularly in the fourth quarter, reflects the higher cost of proved reserve additions on a boe basis during the year. Resolute's DD&A rate for 2004 will depend on the Company's ability to add proved reserves at a reasonable cost.

Site restoration per boe decreased by 26% for the quarter and 27% for the year. The decrease represents the proportionately lower estimated site restoration liability per barrel of reserves compared to the properties originally acquired in the Equatorial acquisition.

The Equatorial acquisition resulted in an upward valuation adjustment of petroleum and natural gas interests of approximately \$41.5 million. As a result of low natural gas prices in June 2002, the Company determined that a ceiling test impairment had occurred and, accordingly, this impairment resulted in a property write-down of \$33 million before tax.

INCOME TAXES

Resolute was not subject to current taxes in Canada other than Large Corporations Tax (LCT) and Saskatchewan Resource Surcharge (SRC), which amounted to \$0.5 million in 2003. The Company expects the LCT and SRC taxes to be lower in 2004 as a result of tax changes legislated in 2003. Other than LCT and SRC taxes, the Company does not expect to pay current taxes in 2004 based on existing tax pools, planned capital activities and current forecasts of taxable income. The current tax horizon will ultimately depend on a number of factors including commodity prices, future production, corporate expenses and both the type and amount of capital expenditures incurred during the year.

Future income taxes for 2003 included a \$3.1 million benefit, reflecting lower corporate tax rates legislated during the year for resource companies. Future income taxes for 2002 included a benefit of \$14.5 million, primarily related to the \$33 million write-down of petroleum and natural gas assets recorded in the same year.

Resolute had the following income tax pools available at January 1, 2004:

Tax Pools at January 1, 2004	Annual Deduction Available (%)	(\$000s)
Non-capital loss carry forwards	100	7,012
Canadian oil and gas property expenses	10	51,053
Canadian development expenses	30	20,322
Undepreciated capital costs	25	19,600
Financing costs	20	679
Other	10	177
		98,843

NET INCOME

Net income from continuing operations rose to \$3.6 million (\$0.06/share) for the most recent quarter compared to net income of \$1.5 million (\$0.02/share) in 2002. Higher production, together with lower royalty rates and unit costs contributed to the earnings improvement.

For 2003, net income from continuing operations was \$17.4 million (\$0.29 per share) compared to a loss of \$17.7 million (\$0.30 per share) for 2002. The 2003 net income includes a future tax benefit of \$3.1 million, which reflects lower tax rates that were substantially enacted in early 2003. The prior year loss includes a \$33 million write-down in the book value of properties, which was offset by a \$14.5 million future tax benefit.

Including discontinued operations, the Company recorded income of \$3.0 million (\$0.08/share) for the fourth quarter, which includes a loss of \$0.5 million from discontinued operations related to additional transaction costs and an adjustment to the Indonesian wind-up calculation. Including discontinued operations, 2003 net income was \$11.5 million (\$0.19/share diluted), which includes a \$5.9 million (\$0.10/share diluted) loss from discontinued operations.

CASH NETBACKS

The components of the Company's operating and corporate netbacks are summarized below:

Year ended December 31	2003	2002
(\$/boe)		
Sales price	39.04	29.45
Royalties	(7.48)	(6.38)
Operating expenses	(7.52)	(7.60)
Operating netback	24.04	15.47
Cash G&A	(2.40)	(3.98)
Interest (net)	(0.42)	(0.27)
Current income taxes	(0.22)	(0.26)
Corporate netback	21.00	10.69

Recycle Ratio

2003	\$/boe	Recycle Ratio
Operating netback	24.04	
Current year FD&A		
Proved	12.90	1.9
Proved plus probable	11.57	2.1
Inception to date FD&A		
Proved	11.16	2.2
Proved plus probable	9.59	2.5

A key indicator of efficiency and profitability in the oil and gas industry is the recycle ratio, which is defined as the operating netback divided by the current year average finding, development and acquisition costs (FD&A). Due to the limited period of commercial operations for Resolute, the Company has expressed its average FD&A costs on a one-year and inception-to-date basis. Management places significant emphasis on maintaining a high recycle ratio.

Capital Expenditures

Year ended December 31	2003	2002
(\$000s)		
Land and lease retention	10,562	4,693
Geological and geophysical	2,322	491
Drilling and completions	31,552	8,932
Facilities and equipment	7,318	3,735
Other	2,909	1,126
Property acquisitions	8,324	924
Site restoration and abandonment	98	12
Total capital expenditures	63,085	19,913
Dispositions	(93)	(33)
Net capital expenditures	62,992	19,880

Total capital expenditures amounted to \$63 million in 2003 including an \$8.3 million acquisition at Berry, Alberta. During the year, the Company's capital program was focused on internally-generated growth with \$12.9 million invested in land acquisitions and geological and geophysical programs. The Company acquired 105,000 net acres of land during the year, building its prospect inventory for 2004 and 2005.

During the year, Resolute drilled 109 (101.7 net) wells with a 95% success rate. The program resulted in 90 (84.7 net) natural gas wells, 13 (12.0 net) oil wells and 6 (5.0 net) dry wells.

The Company has established an initial \$46 million budget for 2004 and plans to drill 75 net wells, including 43 net shallow wells targeting natural gas at Winnifred, Alberta. The Company has also budgeted 30 re-completions for the year. The 2004 program is currently underway and over half of the annual budget will be invested during the first four months of the year.

Based on drilling results to date, management may expand the 2004 capital budget to include natural gas conservation facilities and additional drilling at Ante Creek as well as expanded activities in other areas.

Liquidity and Capital Resources

During 2003, the Company issued 425,000 shares to new senior officers pursuant to a private placement at \$2.38/share for total gross proceeds of \$1.0 million. Each common share issued included an additional performance warrant entitling the holder to convert to common shares at various prices ranging from \$2.38 to \$4.32/share.

The Company raised an additional \$1.1 million from the exercise of 511,172 stock options and 6,465 performance warrants during the year.

Resolute sold its Indonesia operations on July 23, 2003 for net proceeds of \$23.2 million. The proceeds were used to reduce debt in Canada.

At December 31, 2003, the Company had \$16 million drawn on its \$50 million credit facility held with two major Canadian chartered banks. The debt is secured by the Company's oil and natural gas properties. Management expects to maintain or increase its lending facility following its annual review in April, based on independently evaluated 2003 reserve additions and improvement in prevailing commodity prices. Resolute also had a working capital deficit of \$3.8 million at year-end 2003. The deficit is a result of normal operating conditions in periods when the Company incurs significant capital expenditures relative to revenue.

The Company expects to fund its 2004 capital program and all other commitments during the year primarily from internally-generated cash flow. Resolute may use other sources of funding including its unused credit facility, proceeds of disposing non-strategic properties and equity issues if available on favourable terms. Oil and natural gas prices have a significant impact on internally-generated cash flow. Should commodity prices decline significantly, the Company may reduce its capital expenditure program. Resolute expects to be able to fulfill all of its contractual obligations at December 31, 2003 as summarized below:

Contractual Obligations

\$000s	Total	>1 year	1-3 years	4-5 years	After 5 years
Long-term debt	16,000	—	16,000	—	—
Operating lease obligations	1,726	256	695	715	60
Total contractual obligations	17,726	256	16,675	715	60

CHANGES IN ACCOUNTING STANDARDS

The Canadian Institute of Chartered Accountants (CICA) has implemented several changes to accounting standards over the past year. A summary of the changes, the year of adoption and the effect on the Company is outlined below.

Accounting Policies Adopted in 2003

Stock-Based Compensation and Other Stock-Based Payments: In September 2003, the CICA issued an amendment to section 3870 "Stock-based compensation and other stock-based payments". The amended section is effective on or after January 1, 2004; however, earlier adoption is recommended. The amendment requires that goods and services received in exchange for stock-based compensation be recognized as expenses in the financial statements using the fair value-based method. Resolute adopted the standard effective January 1, 2003, requiring the Company to record compensation expense for all stock options and performance warrants issued after January 1, 2003. This standard reduces net income in 2003 by \$0.36 million. The compensation expense was included in Administrative Expenses in the Consolidated Statements of Operations and Contributed Surplus in the Consolidated Balance Sheets.

New Standards to be Adopted in 2004

Oil and Gas Accounting – Full Cost – Accounting Guideline 16 (AcG 16): In September 2003, the CICA issued AcG 16 to replace CICA Accounting Guideline 5. The new AcG 16 is effective for fiscal years beginning on or after January 1, 2004. This guideline impacts the calculation of the ceiling test (impairment test). The cost impairment test is now a two-stage process which is to be performed at least annually:

- (a) Impairment is recognized if the carrying amount of the petroleum and natural gas interests (P&NG interests) exceeds the sum of the undiscounted cash flows expected to result from the Company's proved reserves. Futures prices, quoted by third parties, are adjusted for quality differentials and used in calculating future cash flows. Future cash flows are calculated before interest, general and administrative expenses and taxes.
- (b) If impairment is indicated as part of the calculation described in (a), the Company measures impairment by comparing carrying amounts of P&NG interests to the estimated net present value of future cash flows from proved plus probable reserves. The discount rate is the Company's risk-free rate. Future cash flows are calculated before interest, general and administrative expenses and taxes.

Had the Company adopted AcG 16 in 2003, no impairment would have been recognized.

Asset Retirement Obligations: In March 2003, the CICA issued new Section 3110, Asset Retirement Obligations (ARO). The new standard is effective for fiscal years beginning on or after January 1, 2004. The ARO standard requires companies to recognize the liability associated with future site reclamation costs in the financial statements at the time when the liability is incurred. ARO obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The asset retirement cost is to be capitalized to P&NG interests and amortized into income over time. The Company expects its future abandonment liability to increase to approximately \$7 million with an offsetting increase to P&NG interests. The impact on the Consolidated Statements of Operations is currently being evaluated.

Hedging Relationships – Accounting Guideline 13 (AcG 13): The CICA issued AcG 13, which is effective for fiscal years beginning on or after July 1, 2003. The guideline addresses the identification, designation, documentation and effectiveness of hedging transactions for the purposes of applying hedge accounting. It also establishes conditions for applying or discontinuing hedge accounting. Under the new guideline, hedging transactions must be documented and the Company must demonstrate that the hedges are sufficiently effective in order to continue hedge accounting. This standard has no impact on Resolute as the Company had no hedges outstanding in 2003 and has none outstanding currently.

Outstanding Share Data

Resolute Energy Inc. shares trade on the Toronto Stock Exchange under the symbol "RSE".

December 31	2003	2002
Outstanding at year-end (000s):		
Common shares	60,097	59,155
Common shares issuable on conversion:		
Share purchase warrants ⁽¹⁾	3,715	3,715
Performance warrants ⁽¹⁾	2,505	3,310
Stock options ⁽¹⁾	3,828	3,552
Total	70,145	69,732

(1) Each warrant or option is convertible to a common share on a one-for-one basis.

Resolute Share Trading Statistics

December 31	2003	2002
Trading volume (000s)	42,526	3,254
Daily average (000s)	169	113
Trading value (\$000s)	110,612	6,730
Share price (\$/share)		
High	3.30	2.93
Low	2.02	1.56
Average	2.64	2.24
Market capitalization		
Shares outstanding (000s)	60,097	59,155
Year-end share price (\$/share)	3.23	2.18
Total (\$000s)	194,114	128,958

SELECTED QUARTERLY INFORMATION

	2003 ⁽¹⁾				2002 ⁽¹⁾			
	Q4	Q3	Q2	Q1 ⁽⁴⁾	Q4 ⁽³⁾	Q3 ⁽³⁾	Q2 ⁽²⁾⁽³⁾	Q1 ⁽³⁾
Production								
Oil and NGLs (bbls/day)	1,715	1,814	1,689	1,658	1,651	1,546	265	—
Natural gas (mmcf/day)	25.1	23.6	22.6	21.9	19.8	19.0	2.9	—
Barrels of oil equivalent (boe/day)	5,903	5,749	5,448	5,316	4,951	4,721	745	—
Financial								
(\$000s, except as noted)								
Petroleum and natural gas revenue	18,862	18,814	19,435	22,777	15,717	10,618	1,893	—
Revenue net of royalties	15,687	15,578	15,305	18,021	12,258	8,350	1,502	—
Cash flow	10,060	10,798	9,799	12,311	6,240	4,348	132	(221)
Per share basic	0.17	0.18	0.17	0.21	0.11	0.07	—	(0.01)
Per share diluted	0.16	0.18	0.16	0.20	0.11	0.07	—	(0.01)
Net income (loss) from continuing operations	3,573	4,119	4,786	4,944	1,480	240	(19,168)	(227)
Per share basic	0.06	0.07	0.08	0.08	0.03	—	(0.33)	(0.01)
Per share diluted	0.05	0.07	0.08	0.08	0.02	—	(0.33)	(0.01)
Net income (loss)	3,021	4,820	(1,563)	5,230	2,881	1,034	(19,235)	(227)
Per share basic	0.05	0.08	(0.03)	0.09	0.05	0.02	(0.33)	(0.01)
Per share diluted	0.05	0.08	(0.03)	0.09	0.05	0.02	(0.33)	(0.01)
Capital expenditures	11,071	22,733	22,494	6,694	13,447	5,839	372	220
Bank debt and working capital deficit	(19,818)	(18,801)	(8,909)	(19,471)	(25,834)	(19,608)	(16,693)	45,163
Basic shares outstanding (000s)	60,097	59,833	59,233	59,233	59,155	59,093	58,103	26,974
Per Unit Information								
Natural gas (\$/mcf)	5.84	5.89	6.81	8.13	5.62	2.94	4.08	—
Oil and natural gas liquids (\$/bbl)	34.32	36.03	34.52	45.05	36.05	38.38	33.35	—
Oil equivalent (\$/boe)	34.73	35.57	39.21	47.61	34.50	24.03	27.61	—
Operating netback (\$/boe)	21.38	21.80	23.27	30.36	18.38	12.62	14.12	—
Net wells drilled								
Natural gas	—	54.9	24.8	5.0	39.6	8.0	—	—
Oil	1.0	6.0	5.0	—	1.0	—	1.0	—
Dry	0.5	1.5	1.0	2.0	3.0	1.0	—	—
Total	1.5	62.4	30.8	7.0	43.6	9.0	1.0	—
Net success rate	67%	98%	97%	71%	93%	89%	100%	—

See accompanying notes.

(1) The information summarized below represents the results of continuing operations unless otherwise noted.

(2) Amounts include results of operations from June 14, 2002 when the Company acquired Equatorial Energy Inc.

(3) Amounts have been restated to conform to current presentation.

(4) Quarterly amounts have been restated to account for stock-based compensation expense.

QUARTERLY SUMMARY

2002

Q1 – Resolute was a private company with no oil and natural gas activities. The Company had \$18.0 million cash that was raised in the previous year from founders and a group of private investors.

Q2 – The Company raised an additional \$38.0 million pursuant to private placements. On June 14, 2002 Resolute acquired Equatorial Energy Inc., a company with oil and natural gas operations in Canada and Indonesia. The acquisition resulted in an upward valuation of petroleum and natural gas interests of approximately \$41.5 million. As a result of low natural gas prices in June, the Company determined that a ceiling test impairment had occurred, resulting in a \$33.0 million write-down to the value of the petroleum and natural gas interests. The write-down was partially offset by a \$14.5 million future income tax benefit.

Q3 – Natural gas prices were lower during the quarter, averaging \$3.05/mcf. The lower pricing impacted both cash flow and earnings. The Company commenced drilling during the latter part of the quarter, drilling nine net wells and spending \$5.8 million.

Q4 – The Company drilled 43.6 net wells during the quarter, boosting production to 5,316 boe/day versus 4,951 boe/day during the third quarter. Natural gas prices recovered to \$5.62/mcf, increasing revenue, cash flow and earnings from the third quarter.

2003

Q1 – Revenue, cash flow and earnings were positively impacted by exceptionally high commodity prices. Oil and NGLs averaged \$45.05/bbl while natural gas averaged \$8.13/mcf. Successful first-quarter drilling increased average production for the year by 365 boe/day from fourth quarter 2002. The Company accrued a \$0.75 million current tax provision based on prevailing prices and available tax pools at the time.

Q2 – The Company acquired 250 boe/day in the Berry area of the Southern Region for \$8.3 million. Resolute had a very active period, spending \$22.5 million and drilling 28.8 net wells. The Company reclassified its Indonesia assets as Discontinued Operations as a result of a pending sale and recognized a loss of \$6.1 million relating to the transaction. The Company recorded a \$1.9 million future tax benefit during the quarter, reflecting lower tax rates substantially enacted for resource companies.

Q3 – Indonesia operations were sold for cash proceeds of \$23.2 million, which was used to repay Canadian debt. Canadian production increased to 5,749 boe/day as a result of drilling. The Company spent \$22.7 million, which included the drilling of 62.4 net wells. The \$0.75 million current tax provision recorded in the first quarter was reversed due to revised cash flow and capital forecasts.

Q4 – Production averaged 5,903 boe/day for the quarter. The majority of the \$11.1 million capital program was allocated to land, seismic and facilities. The future income tax calculation was recalculated using tax pools available at year-end and it was determined that an additional \$1.2 million future tax benefit be recognized in addition to the \$1.9 million recorded in the second quarter for lower tax rates legislated earlier in the year. Future income taxes were \$0.6 million net of the \$1.2 million adjustment.

GUIDANCE

The Board of Directors of Resolute have approved a 2004 base capital budget of \$46 million. However, current activities may result in an expanded capital budget. The increase accommodates further drilling and the natural gas conservation facilities at Ante Creek as well as expanded activities in other areas. Once the Company evaluates the full scope of its planned activities, Resolute will issue revised guidance as deemed appropriate.

The following table outlines preliminary guidance for 2004:

Preliminary Guidance

Range – 2004 ⁽¹⁾	Low	High
Natural gas (mmcf/day)	27.0	29.0
Oil and NGLs (bbls/day)	1,900	2,000
Barrels of oil equivalent (boe/day)	6,400	6,850
Royalties (% of revenue)	19.0%	20.5%
Operating costs (\$/boe)	7.00	7.25
General and administrative (\$/boe)	2.00	2.20
Capital expenditures (\$ millions)	46.0	65.0

Sensitivities

	Cash Flow		Earnings	
	(\$'000s)	Per Share Diluted	(\$'000s)	Per Share Diluted
Effect of change to 2004 cash flow and earnings:				
Oil US\$1.00	762	0.012	495	0.008
Gas US\$0.25	2,720	0.044	1,768	0.029
Cdn\$/US\$ exchange rate	865	0.014	562	0.009
1% change in interest rate	214	0.003	139	0.002
Oil – 100 bbls/day	538	0.009	349	0.006
Natural gas – 1 mmcf/day	896	0.015	582	0.010

RISKS AND UNCERTAINTIES

All companies in the oil and natural gas industry are exposed to a number of business risks, some of which are beyond their control. These risks can be categorized as operational, financial and regulatory.

Operational Risks – The Company may have unsuccessful operations or delays as a result of a number of factors including lack of availability of services, supplies and equipment; mechanical and technical difficulties; ability to attract and retain employees on a cost-effective basis, and commodity and marketing risk. Resolute is also subject to significant drilling risks and uncertainties including the ability to find oil and natural gas reserves on an economic basis and the potential for technical problems that could lead to well blowouts and environmental damage. There are numerous uncertainties in estimating the Company's reserve base due to the complexities in estimating future production, costs and timing of expenses and future capital.

The operational risks can be mitigated by employing a team of highly qualified staff, providing a compensation system that rewards above-average performance, developing and maintaining strong, long-term relationships with contract service providers and operating a significant portion of its production and drilling activities. The Company maintains an insurance program consistent with industry practice to protect against destruction of assets, well blowouts, pollution and other business interruptions. Resolute maintains a geologically-diverse prospect inventory, drills a significant number of wells relative to its size and capital budget, and maintains a diverse production base to reduce its single well or property exposure to delays, malfunction or failure.

Financial Risks – The Company is exposed to financial risks which includes fluctuations in interest rates, changes in the Canadian/U.S. dollar exchange rate, commodity prices and also access to debt or equity markets. The Company cannot control these factors, but mitigates the potential adverse effects of these factors by maintaining a conservative approach to its finances and a flexible capital expenditure program. The Company has the option to sell properties, farm-out or reduce its capital program should liquidity sources such as cash flow, debt or equity tighten unexpectedly.

Regulatory Risks – Resolute is subject to regulatory risks, which are common to the industry. The Company takes a proactive approach with respect to the environment and safety as described on page 20. An operational emergency response plan is in place and the Company is in compliance with current environmental legislation.

MANAGEMENT'S REPORT

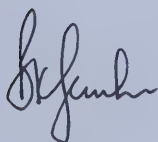
Management has prepared the accompanying consolidated financial statements of Resolute Energy Inc. in accordance with Canadian Generally Accepted Accounting Principles. Financial and operating information presented throughout this annual report is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial information. Where necessary, the financial statements include estimates that are based on management's informed judgements. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and reliable accounting records are produced for financial reporting purposes.

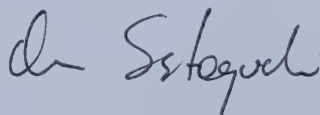
Deloitte & Touche LLP were appointed by the Company's shareholders to perform an examination of the corporate and accounting records so as to express an opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the consolidated financial statements are presented fairly in accordance with Canadian Generally Accepted Accounting Principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. It exercises its responsibilities primarily through the Audit and Finance Committee, which is composed of non-management directors. The Committee meets quarterly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend that the consolidated financial statements be presented to the Board of Directors for approval.

The Audit and Finance Committee has reviewed the consolidated financial statements and recommended their acceptance to the Board of Directors. The Board has approved the consolidated financial statements for issuance to the shareholders.



Brian K. Lemke
President and Chief Executive Officer
February 13, 2004



C. Dean Setoguchi
Vice President and Chief Financial Officer
February 13, 2004

AUDITORS' REPORT

To the Shareholders of Resolute Energy Inc.:

We have audited the consolidated balance sheets of Resolute Energy Inc. as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian Generally Accepted Accounting Principles.



Chartered Accountants
Calgary, Alberta
February 13, 2004

CONSOLIDATED BALANCE SHEETS

December 31	2003	2002
(\$000s)		(restated note 1)
ASSETS		
Current		
Cash	1,443	1,539
Accounts receivable	10,928	9,346
Assets held for sale (note 5)	–	55,191
	12,371	66,076
Petroleum and natural gas interests (note 6)	156,622	112,156
	168,993	178,232
LIABILITIES		
Current		
Accounts payable and accrued liabilities	16,189	15,943
Liabilities related to assets held for sale (note 5)	–	25,267
	16,189	41,210
Long-term debt (note 7)	16,000	20,775
Future income taxes (note 11)	16,279	10,514
Site restoration and abandonment	4,015	3,122
Commitments (note 14)		
SHAREHOLDERS' EQUITY		
Share capital (notes 8 and 9)	120,235	118,209
Contributed surplus	364	–
Deficit	(4,089)	(15,598)
	116,510	102,611
	168,993	178,232

See accompanying notes.

On behalf of the Board



Director



Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the years ended December 31	2003	2002
(\$000s, except per share amounts)		(restated note 1)
REVENUE		
Gross oil and natural gas revenue	79,889	28,228
Royalties	(15,298)	(6,119)
	64,591	22,109
EXPENSES		
Operating	15,386	7,286
Administrative	5,284	3,815
Interest – long-term debt	868	472
Depletion, depreciation and amortization	19,418	9,092
Write-down of petroleum and natural gas interests (note 6)	–	33,000
Other income	(6)	(211)
	40,950	53,454
Income (loss) from continuing operations before income taxes	23,641	(31,345)
Income taxes (note 11)		
Current income taxes	454	250
Future income tax (recovery)	5,765	(13,920)
	6,219	(13,670)
Net income (loss) from continuing operations	17,422	(17,675)
Discontinued operations		
(Loss) income from discontinued operations (note 5)	(5,913)	2,129
Net income (loss)	11,509	(15,546)
Deficit, beginning of year	(15,598)	(52)
Deficit, end of year	(4,089)	(15,598)
Net income (loss) per share from continuing operations (note 10)		
Basic and diluted	\$0.29	(\$0.30)
Net income (loss) per share (note 10)		
Basic and diluted	\$0.19	(\$0.26)

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31 (\$000s)	2003	2002 (restated note 1)
OPERATING ACTIVITIES		
Net income (loss)	11,509	(15,546)
Items not affecting cash:		
Write-down of petroleum and natural gas interests	—	33,000
Depletion, depreciation and amortization	19,418	9,092
Future income taxes (recoveries)	5,765	(13,920)
Stock-based compensation	364	—
(Loss) income from discontinued operations (note 5)	5,913	(2,129)
Cash flow from continuing operations	42,969	10,497
Changes in non-cash working capital (note 12)	198	(2,585)
	43,167	7,912
FINANCING ACTIVITIES		
Issue of common shares net of issue expenses (note 8)	2,026	41,108
Debt – drawdown (repayment) of loan facility	(4,775)	20,775
Repayment of Equatorial loans	—	(50,566)
Repayments from (advances to) discontinued operations	831	(1,468)
	(1,918)	9,849
INVESTING ACTIVITIES		
Proceeds on disposition of Equatorial Indonesia (note 5)	23,181	—
Retirement of hedging obligation (note 13)	—	(13,300)
Transaction costs on Equatorial Energy Inc. acquisition	—	(4,996)
Petroleum and natural gas expenditures	(62,894)	(19,867)
Site restoration and abandonment expenditures	(98)	(12)
Changes in non-cash working capital (note 12)	(1,534)	3,945
	(41,345)	(34,230)
Net (decrease) in cash	(96)	(16,469)
Cash, beginning of year	1,539	18,008
Cash, end of year	1,443	1,539

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31

(tabular amounts in thousands of dollars, except per share amounts)

1. DESCRIPTION OF BUSINESS

Resolute Investments Inc. was incorporated on June 6, 2001 and commenced operations on October 1, 2001. The Company is in the business of exploration for development and production of petroleum and natural gas reserves.

On June 14, 2002, Resolute Investments Inc. acquired Equatorial Energy Inc. ("Equatorial"). The transaction was accounted for as a reverse takeover whereby the Resolute Investments Inc. became a wholly-owned subsidiary of Equatorial. Accordingly, the results of operations for 2002 include those of Equatorial for the 200-day period from the date of acquisition.

On November 14, 2002, Equatorial changed its name to Resolute Energy Inc. ("Resolute" or the "Company").

On July 23, 2003, the Company completed the sale of its Indonesian subsidiary. These consolidated financial statements include the accounts of the Company and its remaining wholly-owned subsidiaries, Resolute Investments Inc., Equatorial Energy (International) Inc. and Equatorial Energy Trading Corp. The financial position and results of operations of the Indonesian subsidiaries have been reclassified as discontinued operations and the relevant amounts previously reported in the Company's annual audited consolidated financial statements for the year ended December 31, 2002 have been restated. All inter-company transactions and accounts have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are presented in accordance with Canadian Generally Accepted Accounting Principles and are expressed in Canadian dollars. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated.

(a) *Joint Venture Activities*

A portion of the Company's exploration, development and production activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities.

(b) *Cash*

Cash includes cash and short-term investments with a maturity of 90 days or less at the time of issue.

(c) *Petroleum and Natural Gas Interests*

Capitalized costs

The Company follows the full cost method of accounting for petroleum and natural gas interests whereby all costs relating to exploration for and development of petroleum and natural gas reserves are capitalized in one Canadian cost centre and are charged against income. Such costs include land acquisition costs; geological and geophysical expenses; costs of drilling both productive and non-productive wells; tangible equipment and administrative costs directly related to acquisition, exploration and development activities. Gains or losses are not recognized upon disposition of oil and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depletion and Depreciation

The costs associated with proved reserves are depleted or depreciated using the unit-of-production method based on an independent engineering estimate of the Company's share of proved reserves, before royalties, with natural gas converted to its energy equivalent at a ratio of six thousand cubic feet of natural gas to one barrel of oil. Office equipment is amortized on a straight-line basis over five years.

Impairment

The Company applies a ceiling test of impairment of its capitalized costs relating to its petroleum and natural gas properties. The net capitalized cost of each cost centre is calculated as the net book value of the related assets less the accumulated provisions for future income taxes and future site restoration. Such costs are compared to the sum of future net revenues from proved properties and the cost of unproved properties, less future general and administration expenses, financing costs and income taxes. If such costs exceed future net revenues and costs of unproved properties, the excess is charged to income. Future net revenues are based on prices, costs and regulations prevailing at year-end.

Future Site Restoration and Abandonment Costs

Future estimated site restoration costs are provided for using the unit-of-production method and are included within the provision for depreciation, depletion and site restoration. Costs are estimated each year by management based upon regulations, costs, technology and industry standards in effect at year-end. Actual costs are charged against the accumulated liability.

(d) *Revenue Recognition*

Revenue is recognized when title passes to the customer.

(e) *Foreign Currency Translation*

Transactions of the Company that are denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the consolidated balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect when the assets are acquired or the liabilities assumed. Exchange gains and losses arising on the translation of monetary assets and liabilities are included in the determination of income for the period.

(f) *Stock-Based Compensation Plans*

The Company has a stock option plan that allows employees, independent directors and consultants to be granted options to purchase common shares at a fixed price not less than the fair market value of the stock on the day preceding the grant date. The Company has also issued performance warrants in conjunction with a private placement to executives as disclosed in Note 8. The fair value of the options and warrants is estimated using the Black-Scholes option-pricing model that takes into account, as of the grant date: exercise price; expected life; current price; expected volatility; expected dividends; and risk-free interest rates. Compensation expense relating to stock options includes amounts for options granted during 2003. The expense related to options issued during 2002 is disclosed as pro-forma information in the notes to the Consolidated Financial Statements.

Compensation expense related to stock options granted under the plan is deferred and recognized in earnings over the estimated exercise period with a corresponding increase in contributed surplus.

Consideration paid upon the exercise of the stock options or performance warrants is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus.

The Company has not incorporated an estimated forfeiture rate for stock options and warrants. Forfeitures are accounted for as they occur. In the event that vested options or warrants expire without being exercised, previously recognized compensation costs associated with such stock options are not reversed.

(g) *Income Taxes*

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax basis, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

(h) *Flow-Through Shares*

Under the terms of Canadian flow-through share legislation, the tax attributes of qualifying expenditures are renounced to subscribers. To recognize the foregone tax benefits, share capital is reduced and a future income tax liability is recorded as the related expenditures are made.

(i) *Earnings per Share*

The Company uses the treasury stock method to determine the dilutive effect of stock options.

(j) *Financial Instruments*

From time to time, the Company may use swap agreements or other financial instruments to manage its exposure to fluctuations in oil and natural gas prices. Hedge accounting is used when there is a high degree of correlation between price movements in the derivative instruments and the hedged item. The Company recognizes gains and losses in the same period as the hedged item.

(k) *Comparative Amounts*

Certain comparative figures have been reclassified to conform with the current year presentation.

3. *CHANGE IN ACCOUNTING POLICY*

Stock-Based Compensation Plan

Effective January 2003, the Company elected to prospectively adopt amendments to CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments" pursuant to the transitional provisions contained therein. Under the amended standard, the Company must account for compensation expense based on the fair value of stock options and performance warrants under its stock-based compensation plan.

The Company continued to disclose pro forma results for stock options and performance warrants granted in 2002.

As a result of adopting this amended standard, net income for the year ended December 31, 2003 decreased by \$364,000 and contributed surplus increased by an equal amount. See Note 9 for additional information regarding the nature of the plan and the associated compensation expense.

4. ACQUISITION OF EQUATORIAL ENERGY INC.

On June 14, 2002, the Company acquired all of the shares of Resolute, and has accounted for the transaction as an acquisition of Equatorial by Resolute.

Net assets acquired:	
Petroleum and natural gas interests	169,943
Site restoration and abandonment	(2,369)
Future income taxes	(35,134)
Net property and equipment	132,440
Working capital deficiency	(1,806)
Unrealized hedge loss under commodity contract (note 13)	(13,300)
Long-term debt	(52,576)
Transaction costs – cash	(4,996)
Purchase price – common share equity value	59,762

5. DISCONTINUED OPERATIONS

On July 23, 2003, the Company completed the sale of the shares of its Indonesian subsidiary, Equatorial Energy (Indonesia) Inc. The sale resulted in net proceeds of \$23.2 million, after deduction of transaction costs, and was accounted for as follows:

Gross sales proceeds (US\$18 million)	24,835
Transaction costs	(1,654)
Net proceeds	23,181
Net book value of discontinued operations	29,732
Loss on sale of discontinued operations	(6,551)

The net proceeds were used to repay the Company's revolving bank facility in Canada. The Company restated its prior period financial statements to reflect the Indonesian net assets as "held for sale" and to separately classify the operating results and the loss on the subsequent sale as discontinued operations.

Details of the Indonesian assets held for sale and the restated liabilities as at December 31, 2002 are as follows:

Current assets	17,778
Petroleum and natural gas interests	37,413
Total assets held for sale	55,191
Current liabilities	14,305
Future income taxes	10,962
Total liabilities related to assets held for sale	25,267

The loss from discontinued operations in the consolidated statement of operations and deficit includes the following:

Year ended December 31	2003	2002
Revenue	19,498	18,816
Income (loss) before income taxes	2,451	4,673
Income taxes	1,813	2,544
	638	2,129
Loss on sale of Indonesian operations	(6,551)	–
(Loss) income from discontinued operations	(5,913)	2,129

6. PETROLEUM AND NATURAL GAS INTERESTS

2003	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas interests	215,197	(59,472)	155,725
Other assets	1,293	(396)	897
	216,490	(59,868)	156,622
2002			
Petroleum and natural gas interests	152,897	(41,324)	111,573
Other assets	699	(116)	583
	153,596	(41,440)	112,156

As at December 31, 2003, unproved properties with capitalized costs of \$17,683,000 (2002 – \$12,000,000) were not subject to depletion. Also at December 31, 2003, the Company had provided for \$4,015,000 (2002 – \$3,122,000) of approximately \$12,261,000 (2002 – \$10,488,000) in future dismantlement and site restoration costs.

During the year, the Company capitalized overhead charges relating to petroleum and natural gas exploration and development activities of \$2,049,000 (2002 – \$992,000).

Low natural gas prices at the end of June 2002 resulted in the calculation of a full cost-ceiling that was lower than the book value of petroleum and natural gas interests. Accordingly, a write-down of the properties of \$33,000,000 (\$19,117,000 net of income taxes) was made at that time.

For 2003, a ceiling test was performed using both Accounting Guideline 5 and new Accounting Guideline 16 with no impairment.

7. LONG-TERM DEBT

The Company has drawn \$16,000,000 (2002 – \$20,775,000) against a revolving \$50,000,000 loan facility with a syndicate of Canadian chartered banks. Borrowings are made by way of prime loans with interest at the banks' prime rate or bankers' acceptances and LIBOR advances at money market rates plus a stamping fee of 1.10%. The facility is secured by a first floating charge debenture and general assignment of book debts and is subject to annual review by the lenders. If not renewed, the facility is converted into a one-year term facility.

8. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares.

Unlimited number of preferred shares.

(b) Issued

Common Shares	Number	Consideration
Balance – December 31, 2001 ⁽¹⁾	9,265,265	17,131
Common shares deemed to be issued on the Equatorial acquisition	30,496,275	59,762
Issued for cash:		
Private placements ⁽²⁾	18,224,972	37,327
Exercise of stock options	1,168,188	1,857
Flow-through tax benefits renounced and share issue costs	–	(673)
Balance – December 31, 2002	59,154,700	115,404
Issued for cash:		
Private placement	425,000	1,012
Exercise of stock options and performance warrants	517,637	1,068
Share issue costs (net of future tax effect)		(54)
Balance – December 31, 2003	60,097,337	117,430
Share purchase warrants		
Balance – December 31, 2001 ⁽¹⁾	1,252,065	882
Issued for cash:		
Private placements ⁽²⁾	2,462,836	1,923
Balance – December 31, 2003 and 2002	3,714,901	2,805
Common shares and share purchase warrants		
Balance – December 31, 2002		118,209
Balance – December 31, 2003		120,235

(1) Represents the number of shares and share purchase warrants issued in exchange for pre-acquisition shares and share purchase warrants issued prior to the Equatorial transaction.

(2) Represents 17,708,385 shares and 2,393,026 share purchase warrants issued in exchange for pre-acquisition shares and share purchase warrants issued prior to the Equatorial transaction.

The share purchase warrants have an exercise price of \$2.08 per common share and expire on December 14, 2005. The warrants were valued using the Black-Scholes option-pricing model with a risk-free interest rate of 4.72%, a 42-month term and an expected volatility factor of 42.17% and a 0% dividend yield.

At December 31, 2001, \$3,000,000 of Canadian exploration expenses was renounced to holders of previously issued flow-through shares. At December 31, 2002, all related expenditures had been incurred.

(c) Performance Warrants

As part of the initial capitalization of the Company, certain founding shareholders were issued an aggregate of 3,310,005 performance warrants on December 10, 2001. The performance warrants expire on December 10, 2008. During the year, 1,223,064 performance warrants expired due to resignations and 6,465 were exercised. On June 19, 2003, 425,000 performance warrants, expiring on June 19, 2008, were issued to new officers pursuant to a private placement. The total performance warrants outstanding at December 31, 2003 were as follows:

Number of Warrants	Exercise Price (\$)
260,060	2.16
85,000	2.38
345,060	2.70
475,089	3.24
605,120	3.78
735,147	4.32
<u>2,505,476</u>	<u>3.47</u>

(d) Share Purchase Loan

During the year, the Company loaned \$188,000 to an officer in connection with a private placement of 100,000 common shares and 100,000 performance warrants for total consideration of \$238,000. The loan is full recourse and the shares and warrants are held as security. The current value of the common shares is approximately \$323,000. Interest is calculated at 4% payable semi-annually in arrears. The loan is due on or before the earlier of June 30, 2008 or 30 days following termination of employment. Accelerated payments are required in the event of payments of future bonuses or the realization of sale proceeds from the common shares or performance warrants. The share purchase loan is included in "accounts receivable" on the balance sheet.

9. STOCK-BASED COMPENSATION

(a) Stock Option Plan

The Company has established a stock option plan whereby officers, directors, employees and service providers may be granted options to purchase common shares at a fixed price not less than the fair market value of the stock on the day preceding the grant date. Vesting and expiry provisions are determined at the date of grant. At December 31, 2003, shareholders have authorized 4,469,762 stock options or 7.4% of outstanding common shares, of which 3,827,972 are outstanding and 641,790 are available for future grants.

The following table summarizes information about the Company's stock options outstanding at December 31, 2003:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2001		—
Issued by the Company in exchange for Resolute options on Equatorial acquisition	2,368,250	2.16
Options outstanding at the date of the Equatorial acquisition	1,708,188	1.71
Granted	964,250	2.28
Cancelled	(310,622)	2.14
Expired	(10,000)	6.20
Exercised	(1,168,188)	1.59
Outstanding at December 31, 2002	3,551,878	2.16
Granted	2,042,750	2.50
Cancelled	(765,604)	2.29
Expired	(489,880)	2.18
Exercised	(511,172)	2.06
Outstanding at December 31, 2003	3,827,972	2.32

The following table summarizes information about options exercisable and outstanding at December 31, 2003:

Exercise Price	Options Outstanding	Remaining Contractual Life (years)	Options Exercisable	Remaining Contractual Life (years)
\$1.40 - 1.85	124,250	0.7	124,250	0.7
\$2.10 - 2.16	1,448,388	3.7	622,213	3.9
\$2.20 - 2.34	642,584	3.0	101,753	3.0
\$2.35 - 3.05	1,612,750	3.6	44,334	3.5
\$1.40 - 3.05	3,827,972	3.4	892,550	3.3

(b) Share Appreciation Rights Plan

Share appreciation rights were issued by Equatorial prior to the Equatorial acquisition. The Company currently has no intention to grant additional share appreciation rights.

Certain share appreciation rights had been granted to employees and service providers. Each right entitles the participant to receive from the Company an amount equal to the positive difference, if any, obtained by subtracting the assigned amount from the simple average of the closing trading price of the common shares on the Toronto Stock Exchange for up to 20 trading days immediately preceding the date of exercise.

As a result of the Equatorial acquisition, all of the Company's share appreciation rights became vested and fully exercisable. Accordingly, a total of \$160,750 in share appreciation rights costs were recorded and capitalized as part of the cost of the acquisition.

Base Value	Number	Remaining Contractual Life (years)
1.40 - 1.45	121,250	1.6
2.30 - 2.90	70,000	2.5
	191,250	2.0

(c) **Stock-Based Compensation Expense**

The Company has calculated its stock-based compensation expense using the Black-Scholes option-pricing model to estimate the fair value of stock options and performance warrants issued at the date of grant.

For stock options and performance warrants granted in 2002, compensation expense would have increased by \$436,000 (\$0.01/share basic and diluted) in 2003 and \$472,000 in 2002 (\$0.01/share basic and diluted).

For stock options and performance warrants granted in 2003, the Company expensed \$364,000 (\$0.01/share basic and diluted) as part of administrative expenses in 2003.

The assumptions used in the Black-Scholes option-pricing model are tabled below:

	Risk-Free Interest Rate	Expected Life (years)	Volatility	Dividend Yield
Granted in 2002				
Private company options issued				
prior to Equatorial acquisition	4.54%	6	—	0%
Equatorial acquisition – revaluation of:				
Replacement options	4.72%	5.5	42.17%	0%
Performance warrants	4.72%	6.5	42.17%	0%
Options issued post				
Equatorial acquisition	3.26% - 4.46%	3	40.13% - 41.58%	0%
Granted in 2003				
Stock options granted	2.98% - 3.78%	1 - 3	26.32% - 39.02%	0%
Performance warrants granted	3.08%	5	38.20%	0%

As part of the calculation, options and performance warrants issued to founding shareholders were re-valued at the date of the Equatorial acquisition.

10. NET INCOME (LOSS) PER COMMON SHARE

Net earnings and cash flow per common share figures have been calculated using the treasury stock method. The following table reconciles the denominators used for the basic and diluted loss per common share calculations:

	2003	2002
Effect of Dilutive Securities		
Basic	59,503,542	58,706,997
Performance warrants	—	—
Stock options	527,626	359,751
Warrants	788,009	265,350
Performance warrants	50,697	14,777
Diluted	60,869,874	59,346,875

11. INCOME TAXES

The future income tax provision varies from the amount that would be computed by applying the combined Canadian statutory income tax rates to the loss before taxes as shown below:

	2003	2002
Income (loss) from continuing operations before income taxes	23,641	(31,345)
Expected income taxes (recovery) at the Canadian statutory rate of 40.72% (2002 – 42.12%)	9,631	(13,203)
Increase (decrease) in income tax expense resulting from:		
Non-deductible Canadian Crown charge	3,899	1,747
Canadian resource allowance	(4,511)	(1,467)
Canadian Large Corporation Tax and provincial capital tax	454	250
Non-deductible amounts	227	—
Tax rate reduction	(3,124)	—
Other	(357)	(997)
	6,219	(13,670)

The major components of the future income tax liability are as follows:

	2003	2002
Petroleum and natural gas interests	23,319	20,868
Site restoration and abandonment	(1,390)	(1,315)
Non-capital losses	(2,612)	(5,573)
Share issue costs	(253)	(582)
Attributed Canadian Royalty Income	(2,785)	(2,884)
	16,279	10,514

The Company's non-capital losses for Canadian income tax purposes of approximately \$7,011,000 are available to be carried forward to offset income in future years and expire in 2007. The Company's tax pools in Canada are approximately \$121,071,000 including such non-capital losses and \$22,282,000 of Attributed Canadian Royalty Income (which is deductible for Alberta tax purposes only) at December 31, 2003.

12. STATEMENTS OF CASH FLOWS

	2003	2002
Changes in non-cash working capital:		
Accounts receivable	(1,582)	(9,276)
Accounts payable and accrued liabilities	246	15,787
Canadian working capital acquired on Equatorial acquisition	–	(5,152)
	(1,336)	1,359
Cash interest paid during the period	868	472
Cash taxes paid during the period	298	132

13. HEDGING AND FINANCIAL INSTRUMENTS

Financial instruments recognized on the consolidated balance sheets include cash, accounts receivable, accounts payable, accrued liabilities and long-term debt. At December 31, 2003, the fair value of these instruments approximates their carrying amounts due to their short-term to maturity, or in the case of long-term debt, due to the interest rate fluctuations with the market.

The Company's revenues are exposed to fluctuations in commodity prices, and commodity prices are exposed to foreign exchange fluctuations. From time to time, the Company may enter into derivative contracts to manage its exposure to commodity price or foreign exchange risks. On December 31, 2003 there were no such contracts in place. In addition, there were no contracts in place at December 31, 2003, to fix the interest rate on the Company's variable rate debt.

Following the closing of the Equatorial acquisition in June 2002 all commodity hedging contracts previously held by Equatorial were settled at a cost of \$13,300,000. The settlement cost of these contracts was accrued as a liability as this was assumed in connection with the acquisition.

A substantial portion of the Company's accounts receivable are with customers in the energy industry and are subject to normal industry credit risk.

14. COMMITMENTS

The Company has obligations under operating leases for office space, which expire on January 31, 2009. The total obligation, excluding operating costs over the next 62 months, is \$1,725,985 with an annual minimum lease rental of \$256,352 in 2004.

CORPORATE INFORMATION

BOARD OF DIRECTORS

S. Barry Jackson ^{(2) (4)}

Chairman

Resolute Energy Inc.

Douglas D. Baldwin ^{(1) (3)}

Corporate Director

Calgary, Alberta

Donald P. Driscoll ^{(1) (2)}

President and Chief Executive Officer

NAL Resources

Calgary, Alberta

Brian K. Lemke ⁽⁴⁾

President and Chief Executive Officer

Resolute Energy Inc.

Calgary, Alberta

Douglas G. Manner ⁽³⁾

Senior Vice President and Chief

Operating Officer

Kosmos Energy Ltd.

Dallas, Texas

Paul G. McDermott ⁽¹⁾

Managing Partner

Cadent Energy Partners LLC

Purchase, New York

Robert R. Rooney ⁽²⁾

Partner, Bennett Jones LLP

Barristers and Solicitors

Calgary, Alberta

Jeffrey T. Smith ^{(3) (4)}

Corporate Director

Resolute Energy Inc.

Calgary, Alberta

Mac Van Wielengen ^{(1) (2)}

Co-Chairman

ARC Financial Corporation

Calgary, Alberta

OFFICERS

Brian K. Lemke

President and Chief Executive Officer

Peter R. Bresee

Vice President Exploration

David V. Elgie

Executive Vice President and

Chief Operating Officer

C. Dean Setoguchi

Vice President and Chief Financial Officer

SOLICITORS

Bennett Jones LLP

Calgary, Alberta

BANKERS

Canadian Imperial Bank of

Commerce

Royal Bank of Canada

AUDITORS

Deloitte & Touche LLP

Calgary, Alberta

INDEPENDENT

RESERVOIR CONSULTANTS

Gilbert Laustsen Jung Associates Ltd.

Calgary, Alberta

TRANSFER AGENT

Valiant Trust Company

Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange

Trading symbol: RSE

HEAD OFFICE

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ANNUAL INFORMATION FORM

Copies of Resolute's Annual Information Form (AIF) can be found at www.resoluteenergy.com. Copies may also be obtained free of charge by contacting the Company.

ABBREVIATIONS

bbl – barrel

bbls/day – barrels per day

boe – barrels of oil equivalent

boe/day – barrels of oil equivalent per day

mbbls – thousand barrels

mboe – thousand barrels of oil equivalent

mcf – thousand cubic feet

mcf/day – thousand cubic feet per day

mmcf – million cubic feet

mmcf/day – million cubic feet per day

mmbtu – million British thermal units

WTI – West Texas Intermediate

Members of the following Committees:

(1) Audit and Finance Committee

(2) Human Resources and Governance Committee

(3) Technical Committee

(4) Corporate Review Committee



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